

Q4 2020 & Q1 2021 Physical Security Industry Update



The most disruptive event in the past 100 years of our industry happened in Q1 2021

Since the 1920's Door & Hardware manufacturers controlled the market by writing product specifications for architects and pulling the products through the distribution channel. From 2000 through 2020, as electromechanical security products developed, the major manufacturers were forced to embrace access control software to allow their products to function. Early actions involved buying access control software platforms and later transitioning to an integration with the leading software platforms strategy. Integration of the locking products with as many as 50 software platforms created a power struggle in control of the route to market, but more importantly represented a shift in control of the final product / brand decision. Software had become a major element of the security system decisions.

And then came Latch. Latch launched in 2014 with an idea that a total operating system designed for efficiency for specific market could create an ecosystem and establish an entirely different way of applying a total facility system...including security.

On January 25th, 2021 Latch Inc. announced it will go public in a merger with a SPAC (special purpose acquisition company) backed by Tishman Speyer, a major real estate developer.

The deal will give Latch an equity value of \$1.56 billion and provide the company with \$510 million to fund growth. Shares of the SPAC surged 90% to \$19.70 after the merger was announced on Monday. (*dormakaba's market cap is \$2.16 b, Allegion \$10.8 b.*)

LatchOS

We make spaces better places to live, work, and visit.

LatchOS is a full-building operating system of products, software, and services designed to make every building better.



Latch / Tishman represents several disruptive elements:

- A property developer / operator owning the operating system and associated hardware...including the locks
- Security product decisions controlled by the software decision
- Strategic penetration of the multifamily, where limited number of hardware products cover all the opening applications



Built for every door.

Our industry-leading access devices work for every door in any building, from the apartment, to the front door, to the garage and gym. Whether unlocking with the Latch App, doorcode, keycard, or Apple Watch, Latch devices make it easier than ever before to let all the right people in.

Why is Latch disruptive and for who?

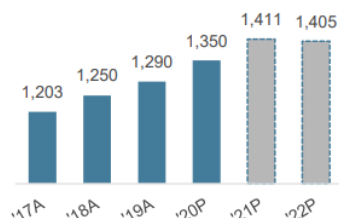
- Hardware manufacturer's control over the specification pull through power is exposed
- Door & Hardware distributors lose the sale of door hardware products
- Security Integrators' value of "integrating" disparate systems is eliminated for multifamily markets, become relegated to subcontracted installation work

The overall market remained relatively resilient again in the 4th quarter and looks poised for recovery in 2021 as the markets move to an “opening up” economy.

Key U.S. Construction Trends

Housing Starts^(1,3)

(000s)



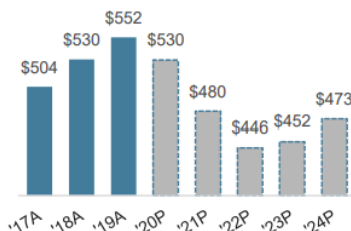
Sources: United States Census Bureau, Fannie Mae, National Association of Realtors, Mortgage Bankers Associations as of October 2020.

(1) Seasonally adjusted.

(2) North America includes Canada, Mexico, and the U.S. Western Europe consists of France, Germany, Italy, and the U.K. APAC consists of Australia, China, India, Indonesia, Japan, and South Korea. South America consists of Argentina and Brazil. EEMEA consists of Russia, Saudi Arabia, South Africa, and Turkey.

Non-Residential Construction Put-in-Place

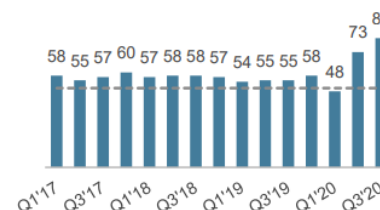
(\$ in millions)



Source: United States Census Bureau, FMI U.S. Construction Outlook as of September 2020.

Remodeling Market Index (RMI)

Q1 '20 was the first quarter with a negative outlook since 2013; Q3 '20 significantly rebounded



Source: National Association of Home Builders as of October 2020.

Q4 2021 Highlights from the Manufacturers

Allegion: Strong financial performance despite COVID

- Full year revenues were \$2.72 billion, -4.3% organic. Americas -4.2%, EMEA -5.1%, Asia -10.6%. Adjusted operating margin was 21%, +20 bps.
- Total Q4 total revenue was \$727 million, down 0.6% organically. Adjusted EPS increased 16.4%. Adjusted Operating Margin increased 150 bps to 22.5%.
- Americas' Q4 sales were \$521 million, down 0.7% organically. Good price realization. Residential product sales were up mid 20%'s, commercial was down low double digits.
- Americas Operating Margin was 28.5% down from 29.2% PY, adjusted ebitda was 30.2%.
- EMEA continues its turnaround - revenue was \$165 million, up 3.1% organic. OM jumped from 11.2% to 15.1% driven by SimonsVoss and Portable Security sales.
- Asia revenue decreased 11.9% organically. Operating margin jumped from 4.4% to 20%.
- Full year revenue for the total business forecasted to decline 1.5% - 2.5%.
- Tim Eckersley longtime leader for the Americas takes over Europe & Asia. Luis Orbegoso recently from ADT joins Allegion and takes over the Americas.

Full-Year 2021 Allegion Revenue Outlook

International markets recovering, Americas residential remains strong; Softness in Americas non-residential

Region	Revenue Projection ¹	Markets
Americas	Total: -4% to -3% Organic: -4% to -3%	<ul style="list-style-type: none"> Strength in residential expected to continue Non-residential new construction expected to remain soft Non-residential discretionary projects expected to pick up 2nd half Electronics continues to be long-term growth driver
International	Total: 6% to 7% Organic: 2% to 3%	<ul style="list-style-type: none"> Organic growth expected to be driven by Germanic and Global Portable Security businesses Currency tailwinds aiding top-line growth partially offset by expected QMI divestiture
Total	Total: -1.5% to -0.5% Organic: -2.5% to -1.5%	<ul style="list-style-type: none"> Softness in Allegion Americas expected to outweigh recovery in Allegion International Total growth includes impact of favorable currency and expected QMI divestiture in Allegion International segment

Fourth-Quarter 2020 Results ¹Organic excludes acquisition/divestiture and currency impact

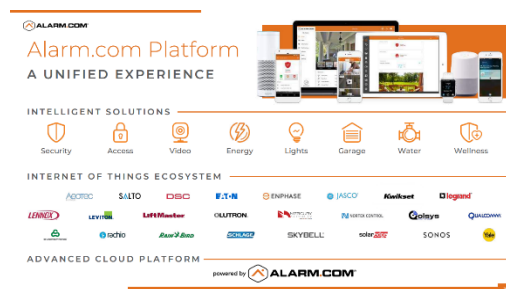


ASSA ABLOY: Negatively impacted by COVID in all business units & markets. Focus on cost control.

- Full year revenues were 87,649 MSEK (\$10.56 billion) down 7%, EBIT declined 20%.
- Q4 total sales were 23.3 MSEK (\$2.3 billion) down 7% vs PY. -5% organic, +5% acquisitive, -7% currency. EBIT & EPS were down 14% and 7%. Headcount was reduced another 650.
- Americas – Q4 Revenues were down 4%. Strong sales in residential & smart home products. Significant declines in Access & High Security. Commercial architectural hardware declined. Operating margin was flat at 20.0%.
- EMEA dropped 1% organically. Operating margin declined from 16% to 12.8% (15.9% without impact of acquisitions & divestments). Stable sales in Germany & Scandinavia, strong sales in France & UK with declines in the rest of their markets.
- Asia continues to struggle. Organic revenue was down 5%, Operating margin was flat at 8.2% from 9.5%. All business units and markets declined.
- Global Technology (HID & Ving) group was down 17%, operating margin declined from 18.3% to 16.4%. All segments declined. Entrance Systems was down 1%. OM declined from 16.3% to 15.8%.
- Completed 4 acquisitions in the quarter, 12 in full year 2020. No significant impact in the US market.
- Travel expenses were reduced 60% compared to prior quarter, headcount has been reduced a total of 2,100 employees, 10 factories and more than 30 offices have been closed.
- Management provided no long-term guidance.

Alarm.com Continues to impress with financials and platform expansion

- Q3 sales were \$158 million, \$100 million SaaS license with 94% retention, \$58 million equipment. +24% vs PY
- Adjusted ebitda \$34.5 million, 31% +31% vs PY. \$247 million cash on hand
- Achieved 25% CAGR since 2015
- Continue to expand integrated solutions building out ecosystem with leading partners



dormakaba No reported financial results this period

Alex Houston COO announced his restructured leadership team, creating complete business units

- Phil Bradney – SVP responsible for Door Hardware & Electronic Access Control
- Ron Virden – SVP joins dk from ACRE with responsibility for Wall and Glass systems divisions
- Michael Kincaid – SVP responsible for Lodging Systems (hospitality)
- Craig Gilmour – VP Service & Customer Support
- Joe Hudock -SVP Marketing & Sales Excellence
- Justin Crotzer – SVP Product Development

Business owners are you working in your business or on your business?

We recently worked with a business owner who accepted an attractive LOI and started working through the diligence process. While this owner had built a sizeable, profitable business they were working in the business. The owner would not include their controller or any manager's in the diligence process and tried to pull the information together while running the business day to day. They took their eye off the business, sales declined and ultimately the deal fell apart. A business's value is not just the financial performance it is also the quality of the team that runs the business. Make sure you are working **ON** your business and not **IN** your business.

M&A Highlights – M&A is back to full speed!

Per Mar Security Services, continues to acquire adding two Indiana based businesses **Martin Security Systems** and **Monument Security Electronics**.

Indianapolis based **CertaSite**, continues to build out its portfolio of fire systems integrators with the additions of **Starfire Systems** and **Starfire Extinguisher** of Franklin, Wis., and **Great Lakes Fire & Security** of Alpena, MI. Great Lakes is CertaSite's sixth acquisition in Michigan.

ACRE, a global provider of security systems, announced the acquisition of **Razberi Technologies**, enhancing ACRE's strategic plans for its video and communications business and product portfolio. ACRE acquired **Open Options** in 2018 and **RS2 Technologies** in 2019.

We were busy in the 4th quarter too, completing these strategic deals.

- **ADT Commercial** acquired Ocean, N.J.-based integrator **Deterrent Technologies**, expanding their capabilities to serve mid-market, national and large-scale commercial customers in New York and New Jersey. David & Carol Hersh spent 40 years developing Deterrent Technologies and we were proud to help them realize a successful transition.
- **Per Mar Security Services**, the largest family-owned full-service security company in the Midwest, announces the purchase of **Floyd Total Security**. Floyd has provided intrusion, video surveillance and lock solutions to commercial and residential customers in Minnesota's Twin Cities and surrounding areas for more than 75 years. We are excited about linking two business leaders and business teams and finding a wining outcome.
- **Doyle Security Systems** acquired **Hart Alarm** of Albany, N.Y. Family owned and operated, Hart Alarm has served the Capital District Region since 1974.
- **Alarm Detection Systems (ADS)**, one of the largest alarm companies in the Midwest, acquired **Illini Security Systems** of Sycamore, Illinois. Illini has been serving customers in Northern Illinois since 1984.

LVC Companies acquired **Commercial Fire & Security** a full-service company specializing in life-safety, security, and cabling solutions for markets in Minneapolis and St. Paul, central and southern Minnesota, and western Wisconsin. **LVC** operates nationally with regional offices in northern and southeast Minnesota, western Wisconsin and Phoenix, Ariz.

Communications America (MCA), a leading provider of voice, video and data solutions, acquired **S3 Integration** Headquartered in Baltimore. S3 provides security & safety solutions in Maryland, Virginia, Washington, D.C., and North Carolina.

Convergint is back in the headlines completing two target end market acquisitions - Grand Rapids, Mich.-based **Innovative Medical Systems (IMS)**, a value-added reseller of select acute care and technical products for hospitals; and San Antonio, Texas-based **Smith Hamilton**, a nationally recognized provider of equipment and security solutions for financial institutions.

ADT Commercial made its 24th acquisition also adding **CLS Technology**. **CLS** provides fire alarm, video, access control and intercom systems in the Houston market.

And the big deal of the quarter, **G4S Plc**, has reached a deal to be acquired by **Allied Universal Security Services** for \$5.1 billion. A 68% premium to G4S's last close. Combining G4S and Allied will create a global security company with about \$18 billion of annual revenue and a workforce of more than 750,000.



Mountain Alarm continues to roll acquiring **CEI Alarm** in Reno, Nevada. the company's seventh acquisition in the past two years. **CEI Alarm** is a full-service installing security contractor serving customers in Northern Nevada.

Securitas AB acquired **FE Moran Security Solutions**, a super-regional alarm monitoring and electronic security systems integration company based in Champaign, Ill. for \$82 million. FE Moran increases Securitas' density in the Midwest and is aligned with the company's ambition to double the size of its security solutions and electronic security business.

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

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