

*2013 Was A "Ho-Hum" Year For  
Mergers and Acquisitions*

***We're calling 2013 a "ho-hum" year for merger and acquisition activity in the guarding and electronics security industry; not only here in the United States, but around the world as well.***

Last year, we reported robust acquisition activity for 2012 with an increase of world-wide transactions of 52% over the 2011 year and 74% over 2010. However, in 2013, the overall acquisition activity slipped almost 25% over the 2012 year, yet still somewhat ahead of 2011 and 2010.

#### HOW WE FIND THE COMPLETED TRANSACTIONS

As a way of staying abreast of what's happening in the buying and selling of security companies throughout the world, our firm is constantly searching the internet, reviewing security publications and pouring over annual reports looking for announcements relating to completed sale transactions. We also subscribe to several news release services that e-mail us when a transaction has occurred or is about to close; and we are constantly talking with owners of companies who have their pulse on what's happening in the industry. This year we found hundreds of transactions for security related companies, however, we only tracked (and posted to our website) the ANNOUNCED activity in the contract security (guarding), central station alarm, "plain vanilla" systems integration and certain other sectors such as armored car company sale transactions. Also, we recognize that there are many smaller "silent" transactions that were not revealed to us because they were not announced or

announced on some obscure reporting service, therefore will not be included in the charts that follow.

We invite you to view the details of these ANNOUNCED transactions in the "World Transactions" section of our website at [www.roberthperry.com](http://www.roberthperry.com); then visit the site often to find out what's currently going on in mergers & acquisitions for 2014.

## THE TOP STORIES IN THE MERGER AND ACQUISITION ACTIVITY AROUND THE WORLD, AND PARTICULARLY IN THE U.S.

There were only three large transactions (revenues over \$50 million - U.S.) in the guarding and cash-in-transit space, with the rest of the transactions in the electronic security space:

### GUARDING & CASH-IN-TRANSIT:

- **November 26, 2013- Universal Protection Service, a division of Universal Services of America and one of the largest providers of security services in the U.S., announced that they have acquired IPC International**
- **August 28, 2013 - G4S, the leading global security and outsourcing group, announces that it has reached an agreement with Garda World, to sell G4S Cash Solutions (Canada) Limited. (On January 17,2014, G4S announced the completed acquisition)**
- **April 02, 2013 - Universal Protection Service, a division of Universal Services of America and one of the largest providers of security services in the U.S., announced that they have acquired Allegiance Security Group from Trivest Partners, LP**

### ELECTRONICS SECURITY:

*Pinnacle Accounts Acquired by SAFE Security (in 3 transactions)*

- October 09, 2013 - SAFE president and CEO Paul Sargenti reports that the company has more than doubled in size within the last year and recently acquired 6,000 additional accounts from Pinnacle Security
- March 11, 2013 - SAFE security has acquired approximately 11,000 security alarm monitoring accounts from Utah-based Pinnacle Security
- February 06, 2013 - SAFE Security announced this week that it has acquired about 24,000 alarm-monitoring accounts from Orem, Utah-based Pinnacle Security
- July 31, 2013 - ADT agreed to acquire Hollywood-based Devcon Security for \$148.5 million in cash
- July 10, 2013 - Ascent Capital Group, Inc. announced today that its primary operating subsidiary, Monitronics International, Inc. has signed a definitive agreement to acquire Security Networks, LLC. (On August 16, 2013 Ascent Capital Group announced the completed acquisition)

## OVERVIEW OF WORLDWIDE ANNOUNCED COMPLETED TRANSACTIONS

There were 93 ANNOUNCED transactions for 2013, compared to 113 in 2012 and 74 in 2011. The international companies, who were the active buyers in previous years, were again mostly on the sidelines for guarding company transactions. **Securitas** bought a few very small companies in Europe, with **G4S** not making any acquisition announcements in the guarding industry anywhere in the world for 2013. In fact, G4S was in the divesting mode for 2013, as evidenced by the sale of its Canadian cash-in-transit business described in the overview of large transactions above. As for the guarding industry in the United States, **Universal Protection** was, once again, very active and accounted for most of the 15 total transactions.

<i>Announced</i>				
<i>Worldwide Transactions</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>
Guarding	31	25	38	22
Alarm Monitoring	15	31	52	43
Systems Integration	14	13	15	19
Other - Investigative, Armored Car, etc.	5	5	8	9
<b>Total Announced Transactions</b>	<b>65</b>	<b>74</b>	<b>113</b>	<b>93</b>

(2013 Industry Acquisitions by Country)

<i>Country</i>	<i>Guard</i>	<i>Alarm Monitoring</i>	<i>Systems Integration</i>	<i>Other</i>	<i>TOTAL</i>
<i>Australia</i>	1			1	2
<i>Canada</i>	1	1	1	1	4
<i>China</i>			1		1
<i>Croatia</i>			1		1
<i>Denmark</i>	1				1
<i>Germany</i>	1			1	2
<i>India</i>	1				1
<i>Malaysia</i>			1		1
<i>Netherlands</i>	1				1
<i>South Africa</i>		1			1
<i>United Kingdom</i>	1		1	1	3
<i>United States</i>	15	40	14	5	74
<i>Uruguay</i>		1			1
<b>TOTALS</b>	<b>22</b>	<b>43</b>	<b>19</b>	<b>9</b>	<b>93</b>

(2010 - 2013 Guard Transactions Only - Comparing U.S. to Worldwide Totals)

<i>History of Announced Guard Transactions</i>		
	<i>US</i>	<i>Worldwide</i>
2010	14	31
2011	8	25
2012	22	38
2013	15	22

(2013 U.S. Guarding Acquisitions by Quarter)

<i>Announced Transactions</i>					
	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>	<i>Total</i>
Guarding	4	7	2	2	15

## WHY THE SLOWDOWN IN ACQUISITION ACTIVITY FOR 2013?

For guarding and electronic security company owners, 2012 was the ideal year to sell in order to take advantage of the lower capital gains tax rates. The Federal long term capital gains tax rate was 15% for 2012, but increased to 20% in 2013, with an additional 3.8% investment income tax some tax advisers are saying might apply to the sale of a business. This made the owners that were thinking about selling in the near future (maybe 2013?) decide to accelerate their plans and sell in 2012. This mindset to sell sooner rather than later was enhanced by the proposed legislation and ongoing discussions in Washington to increase taxes in order to deal with the huge national debt.

As explained in the following section - "PREDICTIONS FOR 2014", the mega companies like Securitas and G4S dramatically curtailed their acquisition activity in order to implement an organic growth strategy.

Also, the year 2012 was when many owners started to become more aware of the

perils of the Affordable Care Act ("Obamacare") and how it negatively affected the security industry - especially the labor intensive contract guarding sector. The attempt to repeal the ACA did not go through, which made many concerned owners accelerate the sale of their companies.

## WHAT WILL 2014 BRING TO THE MERGER AND ACQUISITION MARKETPLACE?

As for the public international security companies, we don't see much activity in buying plain vanilla guarding companies from these mega conglomerates in 2014 anywhere in the world. They are drastically curtailing, or stopping altogether, their buying activities. Here's what the CEO's of Securitas and G4S are saying about their acquisition plans:

- Excerpt from [Securitas press release December 05, 2013](#) CEO, Alf Goransson stated "...Securitas is well positioned to take advantage of the paradigm shift taking place in the security industry. Given the current market dynamics and a gradual increase in the use of technology in security solutions, the security markets in Europe and North America have been growing at the same pace as GDP for the past few years" He goes on to say, "**... the capital expenditure needed to increase the Group's sales of security solutions will be offset by a slower rate of acquisitions ...**".
- Ashley Almanza, G4S's new CEO, made several similar statements in 2013 as he leads G4S away from growing through acquisitions and concentrating on planned organic growth.

As the large international companies take a breather from acquisitions and focus on organic growth, the Private Equity Groups (PEG's) ramp up their efforts to grow through buying more companies. The security companies owned in the majority by the PEG's are getting pressured to grow so they can put their huge stash of idle cash to work. They're hungry for acquisitions, but are not letting their quest to grow through acquisitions get ahead of their good judgment on the multiples they are willing to pay. Although the multiples have increased over the last couple of years, the gap between what owners are expecting in a sale and what buyers are willing to pay is still keeping many owners from putting their company on the market. They don't have to sell and the return on what they would get from the sale proceeds is still at an all time low. However, based on some activity we're seeing, the 2014 year may prove to be a lot more active than 2013 with these groups. One large transaction was

closed in the first week of February and there are a lot of "serious sale discussions" taking place between these buyers and mid-market size companies, which will likely materialize into a sale transaction by the end of the first quarter of 2014. Much more serious activity than what we were seeing this time last year.

Stay tuned and be sure to keep a watch for the transactions as they get announced on our website at [www.roberthperry.com](http://www.roberthperry.com)!

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We initiate and manage transactions for sellers of security guard companies. Established in 1977, we have represented over 200 sellers located in the United States, Canada, Western Europe, South America, the Caribbean, and the Middle East.

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