U.S. CONTRACT SECURITY INDUSTRY

WHITE PAPER

MARKET | MARGINS | MERGERS | MULTIPLES

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& Associates, Incorporated

JULY 2018
10TH EDITION

ABOUT OUR 10th EDITION WHITE PAPER

This annual White Paper marks our 10th year of reporting on the status and direction of the U.S. Contract Security Industry. Although the topic headlines remain relatively unchanged from year to year, the information within the headings are updated to reflect the current status of the industry. As with all annual white papers, some information is inherent to the ongoing activities of the industry, therefore will not change, or will have insignificant changes from year to year.

Highlighting the World Leaders

This year, we are highlighting the World Leaders in Manned Guarding Security. These companies have at least $1 billion in revenues from manned guarding services globally, with the largest portion of their revenues coming from the U.S. market (except Prosegur) - the largest security market in the world.

These companies are large enough and have sufficient financial resources to lead the charge in changing the way the next generation of security companies will meet the ever increasing demands of its customers and general public. As indicated in the section on the World Leaders, each is expanding its menu of services to incorporate the use of technology. They have been pouring huge amounts of capital in developing this technology over the past few years and are now using it as a way to meet this ramped up demand and move farther away from some of their smaller manned guarding competitors - ones without the resources for the large investment in technology and perceived as a provider of commoditized, low margin services.

BY THE NUMBERS

OUTSOURCED AND IN-HOUSE SECURITY INDUSTRY

$44bn

OUTSOURCED CONTRACT SECURITY INDUSTRY

$25.5bn

REVENUES FOR THE 4 INDUSTRY LEADERS

$14.1bn

REVENUES FOR THE 2 MAJORITY FOREIGN-OWNED INDUSTRY LEADERS

$7.1bn

OUTSOURCED SECURITY OFFICERS

810k

COMPANIES IN THE UNITED STATES

8k

ORGANIC GROWTH FOR THE U.S. MARKET

4%

TOTAL REVENUE GROWTH FOR THE U.S. MARKET

4%

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MARKET

DEFINING THE U.S. CONTRACT SECURITY MARKET

TREND: Security companies continue to move away from being branded as a guard company or even a contract security company; rather the companies are using broader terms to describe what they do and the services they offer as a result of an expanding menu of services.

The large professionally-run security company today will use terms such as "Security Solutions", "Security Technology", "Integrated Guarding" and other word combinations to indicate the move to offering more services under the same company umbrella. The companies continue to emphasize the "one stop" solution to all facets of security required by the discriminating customers of today that have an even more need to protect its property, employees and systems given the worldwide increase in physical as well as cyber-security attacks and threats. As pointed out later in this White Paper, the six world leaders (five of which have significant operations in the U.S.) have been and continue to invest heavily in technology that enhances the security service delivery and are greatly expanding the services being offered the customer.

This white paper, which mainly covers the US contract security market (except where otherwise noted), will report on companies that derive at least 75% of revenue from traditional standing security officer or vehicle patrol services and will variously refer to these type services as "Contract Security Companies", "Outsourced Security Companies", or "Manned Guarding Companies". The expanded menu of services offered by many of these companies are as follows:

Also referred to as:

"Security Guards"

"Manned Guards"

"Security Professionals"

- *Standing Security Officer and Vehicle Patrol Services* (at least 75% of the total revenues)
- *Special Event Security*
- *Risk Analysis*
- *Security Consulting*
- *Loss Prevention*
- *Investigators*
- *Background Screening*
- *Facility Design*
- *Roving Vehicle Patrol Services*

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DEFINING THE U.S. CONTRACT SECURITY MARKET

- *Concierge Services*
- *Alarm Services and Security Systems Integration -* although many contract security companies do not actually perform these services in-house; they refer this type of work to a “partner” that specializes in providing the product or service.
- *Integrated Guarding -* a term coined by the large national and international companies to describe video monitoring and vehicle patrol in combination with on-site manned guarding; or to take the place of on-site manned guarding.

Most recent new offerings:

- *Systems Integration*
- *Drones*
- *Security Robots*
- *Cyber Security*
- *Canine Security*
- *Cash Management Services*

THE WORLD LEADERS IN MANNED GUARDING SECURITY

Company	Country Headquarters	Revenues Globally Local Currency	Revenues Globally in U.S. $ (1)	N. America Revenue
SECURITAS	Sweden	92,197 MSEK	$10.9bn	$4.5bn (4)
G4S	United Kingdom	£7.8bn	$10.1bn (2)	$2.6bn (2) (4)
ALLIED UNIVERSAL SECURITY SERVICES	United States	$5.5bn	$5.5bn	$5.5bn (4) (5)
PROSEGUR	Spain	€4.3bn	$4.9bn	None
GARDAWORLD	Canada	CN$2.6bn	$2.1bn	$0.6bn (3)
U. S. SECURITY ASSOCIATES	United States	$1.5bn	$1.5bn	$1.5bn (4) (5)

(1) Local currency to U.S. dollar conversion rates (based on average rates for the 2017 year)

MSEK	= million Swedish Krona	8.49 SEK = $1
£	= British Pound	£ 1 = $1.30
€	= Euro	€ 1 = $1.13
CN	= Canadian Dollar	CN1 = $0.7833

(2) Over the past 4 years G4S has divested non-core businesses generating revenues of approximately $1.7bn.

(3) Primarily cash services

(4) Represents total revenues for North America; with significant amount coming from U.S. sources, and an insignificant international portion

(5) Press release dated July 16, 2018 indicated that Allied Universal intends to purchase U.S. Security Associates in a $1bn transaction - subject to customary approvals.

PERTINENT STATISTICS ON THE SIX WORLD LEADERS

1. Most are enjoying growth rates higher than their smaller competitors in the security markets in which they operate

2. Most are growing more rapidly in the “emerging markets” where there’s lower capital and labor costs (the gross profit in these areas exceed 20% compared to around 13% in the U.S. market)

3. Manned guarding still represents the largest part of their service offerings, but is becoming a lesser percentage of their gross revenues

4. Each is developing technology that supposedly predicts security breaches before it occurs

5. All are improving customer retention (now in the low 90% range)

6. “Cash Solutions” - more than just traditional armored truck services - are a growing part of some of the leader’s service offerings

7. Some moving toward a customer “fixed rate” pricing model that aligns with value-added services, and away from the low margins, highly commoditized traditional manned guarding model based on “man-hours provided”

Important note to reader: *The information on the six leaders presented on pages 11 to 47 was gathered from market sources and primarily the annual reports (in the case of Securitas, G4S, and Prosegur - the three publicly-owned companies). The companies do not follow a uniform format (from one company to the other) in reporting their revenues, market statistics, identifying services offered, etc. Therefore, the information presented on these pages should not be used to compare one company’s performance against any of the other companies, but should only be used to evaluate the performance of the individual company. It is suggested that the reader visit the company’s website to obtain further information on the company’s performance, especially in conjunction with the footnotes accompanying the information being presented.*

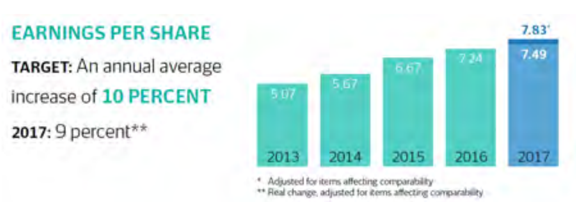
SECURITAS

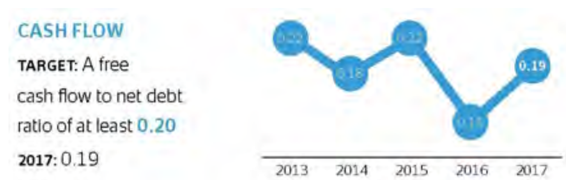
Key Performance Indicators

$10.9bn
(Based on 8.49 conversion rate)

335,000 in 2016
(Source: Securitas Annual Report 2016)

53 countries in 2016
(Source: Securitas Annual Report 2016)





Source: Securitas Annual Report 2017

Securitas History

Securitas had its beginnings in Sweden in 1934 when Erik Philip-Sörensen bought a small manned guarding company. The company grew as it acquired several small security companies throughout the southern areas of Sweden.

In 1972, the company was branded as Securitas, with a logo consisting of three red dots representing the company's core values of "Integrity, Vigilance, and Helpfulness". Securitas carries this same logo today.

The Securitas company would eventually be listed on the Stockholm Stock Exchange; which financed its quest for international expansion including its purchase of Pinkertons in the U.S. in 1999. Thereafter, it bought American Protective Services, First Service, and Burns (then a $1.5 billion mega security company). These acquisitions, along with a series of smaller purchases, made Securitas the largest security company in the world.

Securitas Today - Around the Globe

Securitas' Footprint

Globally, Securitas has revenues of approximately $10.9bn (2017 figures) generated from 55 countries throughout North America, Europe, Latin America, Africa, the Middle East and Asia. Securitas is organized into four geographical business segments:

	% of Global Revenue	Revenue in U.S. $
Security Services North America	41%	4.5bn
Security Services Europe	45%	4.9bn
Security Services Iberno — America	12%	1.4bn
Other (includes Africa, Middle East, and Asia)	2%	.1bn

Source: Securitas Annual Report 2017 (Except for History)

SECURITAS

Securitas Today - Around the Globe

Securitas' Service Offerings

	Operating Margin
• Guarding - Traditional Static Guarding. The most price sensitive and competitive of the four offerings	4%
• Specialized Guarding - More In-depth vetting and training requirements than the traditional static guarding and carries a higher margin	6%
• Guarding Solutions - The guard has more extensive duties than traditional guarding (i.e., fire, safety, and monitoring)	8%
• Security Solutions - Electronic hardware and software provided, along with the programs, thus reducing the cost of labor to provide the security.	10%

In 2013, Alf Göransson, the then CEO of Securitas, said in a statement to the shareholders that …

> **"Securitas plans to increase its revenue in "integrated guarding" (i.e., security solutions and electronic security) supplementing traditional on-site guards with remote video and vehicle patrol … since "integrated guarding" produces operating profits in the 10% range, as opposed to 4 - 5% for traditional on-site manned guarding service".**

Securitas has followed this plan. In 2013, "integrated guarding" revenues were 8% of the total revenues; and grew dramatically thereafter. Today, "integrated guarding" represents over 18% of Securitas' total revenues and continues to grow annually in the 20% range. This growing business line, producing operating margins in the 10% range, allows Securitas to maintain its overall operating margin in the 5+% range in spite of the rising labor costs associated with the traditional manned guarding business. Securitas invested heavily in technology several years ago, which supports the "integrated guarding" business line, and continues to do so today as a way to achieve this growth.

Source: Securitas Annual Report 2017 (Except for Quotes from Prior Years Annual Reports)

Securitas Today - Around the Globe

Revenue and Operating Margin Growth Trends

	Revenue (in MSEK)						
Year	Guarding		Security Solutions/ Electronics		Total		Operating Margin
2013	$60.4		$5.3		$65.7		5.1%
2014	63.7	↑ 5%	6.5	↑ 23%	70.2	↑ 7%	5.0%
2015	71.6	↑ 12%	9.3	↑ 43%	80.9	↑ 15%	5.1%
2016	74.1	↑ 4%	14.1	↑ 52%	88.2	↑ 9%	5.2%
2017	75.5	↑ 2%	16.7	↑ 18%	92.2	↑ 5%	5.1% (1)

Security Solutions & Electronic Security is now 18% of Total Revenue

(1) Decline resulted from start-up costs on significant amount of new contracts

Source: Securitas Annual Report 2017

SECURITAS

Securitas - North America

Securitas North America had 2017 revenues of approximately $4.5B, with an insignificant amount coming from Canada and Mexico. Approximately 20% of the revenues come from Electronic Security as a result of major acquisitions, such as Diebold, 24% of I-Verify, and Kratos (completed in 2018).

This North American unit of Securitas is growing organically at around 5% per annum, with a significant amount of the growth coming from the Integrated Guarding sector, and has steady operating margins at almost 6%.

Excerpt from a direct quote by Santiago Galaz, Divisional President, Security Services North America ...

"In 2017, the market dynamics in the U.S. were strong and Securitas was growing faster than the U.S. security market. We are one of the few security companies that can offer a complete range of protective services that includes on-site, mobile and remote guarding, electronic security, fire and safety, and corporate risk management. Security Services North America is built on closeness to the local market, with approximately 400 branch offices, 750 local branch managers and over 103,000 security officers.

In addition to our on-site, mobile and remote guarding services, we have significantly expanded our electronic security presence and capabilities through Securitas Electronic Security, a full-service solutions business providing design, installation and service of access control, intrusion and video monitoring systems.

In 2017, organic sales growth continued at a good pace and sales of security solutions and electronic security grew at a healthy speed.

Securitas is a large employer and we create many new jobs, including the hiring of over 40,000 military veterans in the U.S. during the last five years. Our extensive training programs and "promote from within" policies have provided compelling career paths across our employee base. We also continuously develop tools that help both our customers and our employees in their daily work to ensure a high level of professionalism."

At $4.5bn in revenue, Securitas North America has approximately 18% of the U.S. contract security market.

Source: Securitas Annual Report 2017

Direction - Around the Globe

In our 2016 White Paper report, we inserted quotes from Alf Göransson, the then CEO of Securitas, regarding the prospects of the future. His comments are summed up as:

- Securitas is leading the ongoing transformation of the security industry from traditional guarding to a much broader spectrum of protective services
- Securitas is developing programs to detect, and report on, crime before it happens
- Securitas is continuing to combine guarding with electronic security as a way of securing future growth and profitability

Securitas' 2017 annual report to its shareholders indicated this about the future (and direction Securitas is going to make sure it provides the services more of its customers are demanding):

Direct quote from 2017 annual report:

> "We build on the experience and expertise of our people, leveraging our competence to meet new challenges. More effective solutions are needed to detect and prevent crime. Expanding business areas within technology requires Securitas to develop and empower our existing employees in new capacities. With our focus on innovation, we provide our employees with the tools they need to help our customers stay safer.
>
> In a world increasingly dependent on stable and uninterrupted operations, Securitas' customers are demanding a higher degree of security and more advanced security solutions. That is why investing in knowledge is a core part of our strategy.
>
> The role of the security officers is changing and the tasks they perform are multiplying. Most importantly, the value they add for our customers is growing larger. Security officers of tomorrow will be equipped with the technology that enhances the value they deliver and raises the bar for safety for the customer, and for themselves. Using this technology efficiently will require a wideset of skills.

Continued on next page . . .

Direction - Around the Globe

Direct quote from 2017 annual report:

Securitas has its own training centers in most of our countries of operation. By contributing to employees' professional growth and to the understanding of the security profession, we are both improving the knowledge and skills of employees and building the business.

INTELLIGENT SECURITY BEYOND 2020

The next step in our knowledge journey is intelligent security. Securitas has been anticipating this trend and has made significant investments. We will turn predictive security into intelligent security by reporting, analyzing and relying on large volumes of data. This increases a sense of security, reduces crime and protects property, information and people. Surveillance services ensure real-time detection of incidents and enable prompt actions or mitigate their consequences.

Our ambition is to use both historical and real-time data generated by our security officers and deploy equipment such as sensors and cameras at the sites. These measures, combined with external crime and data sources, improve our fact-based risk assessments.”

Direction - Around the Globe

Excerpt from a quote by Magnus Ahlquist, the recently appointed President and CEO:

January - March 2018 Interim Report:

- Total sales MSEK 23 356 (22 491)
- Organic sales growth 6 percent (4)
- Operating income before amortization MSEK 1 091 (1 056)
- Operating margin 4.7 percent (4.7)
- Earnings per share SEK 1.89 (1.72)
- Free cash flow/net debt 0.08 (0.12)

"The strong sales momentum from 2017 continued in the first quarter of 2018, and resulted in organic sales growth of 6 percent (vs. 4% in first quarter of 2017). We continue to be supported by favorable macroeconomic conditions in our main markets. We estimate that we grew faster than the security market in general, where our ability to deliver complete security solutions is a market advantage.

The operating margin was stable at 4.7 percent. It was flat in North America, while Europe declined slightly and Ibero America improved. Earnings per share, adjusted for changes in exchange rates, improved by 13 percent supported by a lower tax rate reflecting the impact from the US tax reform in December 2017. The favorable macroeconomic conditions in our main markets are expected to give higher wage inflation in 2018. In the first quarter, we balanced wage cost increases with price increases. Our strategy to mitigate higher wage inflation is also to offer security solutions using technology to our customers."

Key Performance Indicators

Statutory Revenue — represents total revenue, including businesses to be divested or closed.

STATUTORY RESULTS		
Revenue	£7.8bn +3.1% (2016: £7.6bn)	$10.1bn (Based on 1.3 conversion rate)
Adjusted PBITA	£491m +6.5% (2016: £461m)	$638m (Based on 1.3 conversion rate)
EPS	15.2p +18.8% (2016: 12.8p)	
Operating cash flow	£488m -20.7% (2016: £615m)	$634m (Based on 1.3 conversion rate)
Dividend per share	9.70p +3.1% (2016: 9.41p)	

Core Revenue — represents statutory revenue excluding businesses to be divested or closed.

CORE RESULTS		
Revenue	£7.4bn +3.2% (2016: £7.2bn)	$9.6bn (Based on 1.3 conversion rate)
Adjusted PBITA	£496m +4.2% (2016: £476m)	$645m (Based on 1.3 conversion rate)
Adjusted EPS	17.9p +5.9% (2016: 16.9p)	
Operating cash flow	£527m -16.7% (2016: £633m)	$685m (Based on 1.3 conversion rate)
Employee engagement survey	84% Favourable response in 2017	

G4S is a public company listed on the London and Copenhagen Stock Exchanges

G4S reports its global revenue against two measurements:

1. Statutory Revenue — represents total revenue, including businesses to be divested or closed. Since 2013, G4S has divested 41 businesses around the world with aggregate revenues of approximately $1.7bn; producing sales proceeds of approximately $670m. In the 2017 year, G4S closed 4 businesses and sold 9; realizing proceeds of approximately $215m.

2. Core Revenue — represents statutory revenue adjusted for businesses to be divested or closed.

Source: G4S Annual Report 2017

G4S History

G4S began as a "night watchman" company in Copenhagen, Denmark in 1901. In its early years, it operated under the name of Falck (Falcon) and transformed itself several times until the year 2000 when it merged with Group 4, a security firm formed in the 1960's by the Philip-Sørensen family. The merged company was called Group 4 Falck and in 2002 purchased The Wackenhut Corporation; then a $2.8bn company founded by George Wackenhut in 1954.

The company was rebranded again to be called G4S when Group 4 Falck merged with the British headquartered company, Securicor, in 2004. The combined revenues of the 2 companies at the time of the merger was approximately $5 billion.

G4S Today - Around the Globe

Globally, G4S has *statutory revenue* of approximately $10.1bn (2017 figures) and *core revenues* of approximately $9.6bn generated from security services provided in more than 90 countries.

G4S' Footprint

Location	Statutory Revenue (in million £)	Core Revenue (in million £)
Africa	£548	£457
Asia Pacific	761	736
Latin America	731	693
Middle East & India	852	845
Total Emerging Markets	£2,892	£2,731
Europe	£1,490	£1,356
North America	2,029	2,006
UK & Ireland	1,417	1,334
Total Developed Markets	£4,936	£4,696
Total Revenue	£7,828	£7,427

Source: G4S Annual Report 2017 (Except for History)

G4S Today - Around the Globe

G4S' Service Offerings

G4S has two business segments. Secure Solutions and Cash Solutions, each with a number of key service lines.

SECURE SOLUTIONS

- Security Solutions incorporating risk consulting, manned security, software and systems and integrated security solutions
- Facilities Management (FM) including integrated security FM services
- Care & Justice services including custody, health, rehabilitation and transportation

Security Solutions and Facilities Management represent 77% of G4S' revenue. More than £2.45b ($3.2bn) (2016: £2.2bn) of G4S' revenues are derived from technology-related security services and it's expected to keep this growth trend.

The Care & Justice services represent 7% of revenues and are concentrated in the UK and Australia.

CASH SOLUTIONS

- Cash-in-transit, cash processing and ATM services
- Smart safes and cash-recycling technology
- Cash-management software and services

Cash Solutions represents 16% of G4S' total revenue. At the end of December 2017 G4S had over 19,500 (2016: 14,600) cash automation locations, a 30% increase across North America, Europe, Asia Pacific and Africa.

Source: G4S Annual Report 2017

G4S Today - North America

Excerpt from 2017 "Full Year Results" Report

"In North America, our revenues grew by 6.0%, with good growth rates in both our cash solutions and secure solutions businesses.

In Cash Solutions, G4S' technology-enabled cash management services are now delivered to over 6,900 retail locations across the United States, including over 5,000 in large store formats where G4S has established a market leading position. We are expanding the number of locations in Canada and believe that our retail cash solution offers unique customer value and this is reflected in a substantial pipeline and active pilot programmes.

Our Secure Solutions business produced revenue growth of around 5% as our integrated security solutions continued to find traction in the market place. This rate of revenue growth was constrained as we continued to apply commercial discipline in those market locations facing tight labour conditions. In North America, we continue to monitor and manage wage inflation, particularly in Canada following recent minimum-wage increases. Overall, in the United States we are managing wage inflation pressure through productivity improvements and commercial discipline, and we believe that increased unit labour costs are encouraging customer to move to our integrated security solutions combining G4S security professionals with technology. We continue to see good demand for our products and services across the US and Canada.

Adjusted PBITA increased by 7.0%, helped by a favourable revenue mix and efficiency gains, partially offset by the cost of investing in capacity to support our growing integrated secure solutions and retail solutions businesses."

At $2.6bn in revenue, G4S has approximately 10% of the U.S. Contract Security market.

Direction - Around the Globe

G4S expects continued growth from both the Security Solutions service line, where it has more than £2.45 bn (2016: £2.2 bn) of is revenue coming from technology-related security services, as well as the Cash Services line, which presently represents about 16% of G4S' total annual revenue.

Direct quote from 2017 Annual Report regarding G4S' direction:

"The outlook for the Group is positive: our strong market positions, commercial discipline, growing technology-enabled revenues, positive cash generation and on-going productivity programmes provide substantial confidence that the Group is well positioned to deliver a strong performance over the next three years. To realise this potential, G4S is investing in:

- Sales, technology and new products, services and solutions to support our aim of growing revenues from core businesses by an average of 4 - 6% per annum.
- Restructuring and efficiency programmes to deliver recurring operating gains of £70 million to £80 million by 2020, through efficient organization design and leaner processes. Additional refinancing gains of around £20 million are also anticipated by 2020. A portion of these gains will be re-invested in growth, with the majority expected to benefit the bottom line.

We intend to remain soundly financed with average operating cash flow conversion of more than 100% of Adjusted PBITA and a net debt to Adjusted EBITDA ratio of less than 2.5x. Priorities for excess cash will be investment, dividends and, in the near term, further leverage reduction. Following the achievement of the Group's leverage-reduction target, the directors propose a 5%increase in the final dividend to 6.11p reflecting the board's confidence in the Group's performance and prospects. Our dividend policy is to increase the dividend in line with the long-term growth in earnings."

Direction - Around the Globe

Excerpt from report on first quarter 2018 results:

"New contract sales YTD were £500 million (2017 full year: £1.4 billion) annual contract value.

As expected, organic revenues were 2% lower than the first quarter in 2017 when we mobilised a very large retail solutions contract in North America. Following a major contract win in February 2018, the North America retail cash solutions business has continued to build a large sales pipeline and make significant progress with pilot programmes at major retailers, providing confidence in the business' growth prospects.

Secure Solutions revenue growth reflected positive momentum in a number of key markets, partially offset by the year-on-year effect of the slowdown in Middle East and India in H2 2017. Our business in India is now growing and our business in the Middle East is beginning to stabilize.

During the first quarter the Group disposed of its business in Hungary and its data storage business in Kenya, and realised disposal proceeds of £32 million. These businesses were included in core businesses in 2017 and had combined revenues of £57 million and PBITA of £8 million."

ALLIED UNIVERSAL SECURITY SERVICES

Key Performance Indicators

Allied Universal History

Allied Universal was created through the merger of AlliedBarton and Universal Protection Services on August 1, 2016. At the time of the merger, AlliedBarton had an annualized run rate of $2.2bn.

AlliedBarton began as Spectaguard back in 1957 as an event staffing company. It eventually partnered with giant private equity groups such as MacAndrews & Forbes and The Blackstone Group to provide the financial support for organic growth in the high single digits, as well as mega acquisitions such as Barton Protective and Initial Security. The Blackstone Group sold its holdings to the Wendel Group in December of 2015 for $1.67bn.

ALLIED UNIVERSAL SECURITY SERVICES

Allied Universal History

Universal was established in 1965 as a janitorial company, which later branched out into the manned guarding business. Eventually, the janitorial division was sold and the manned guarding business was rebranded as Universal Protection. In 2000, when Universal was billing around $15m, it was sold to Brian Cescolini and Steve Jones in a management-led leveraged buyout. Universal continued to grow organically in the high 20% range in the Western U.S. market until it reached a volume of around $350m; at which time it teamed with a small California based private equity group to fund its continuing rapid organic growth; as well as acquisitions. Universal would go on to team with Partners Group out of Europe for its continuing growth and finally with Warburg Pincus for the financial backing it needed for the mega Guardsmark acquisition.

In the 2016 merger with AlliedBarton, Wendel Group, Warburg Pincus and the Partners Group would each retain an ownership (along with the management of Allied Universal) in the merged company and continues to do so today.

Allied Universal is acquiring U.S. Security Associates, Inc. Once the transaction is finalized, AUS will have over $7bn of annualized revenues and will represent approximately 28% of the North American market.

Present Ownership

Present Ownership	Ownership %
WENDEL	33% *
WARBURG PINCUS	33%
Partners Group	17% *
AUS Management	17%

* Fractional shares rounded up

Allied Universal Today - Around the Globe

Allied Universal's Footprint

180 branches throughout the U.S., with a small presence in Canada, Puerto Rico and the U.S. Virgin Islands.

Allied Universal's Service Offerings

Although Allied Universal has a couple of small divisions offering temporary staffing and janitorial services, its core business is in providing security services - manned guarding, systems integration and cyber security. Below is a description of its core offerings and vertical markets:

MANNED GUARDING (approximates)

- 20,000 security officers service its broad based National Accounts Footprint
- 13,000 security officers secure over 1,000 local, state and Federal government locations

Primary Verticals

- Chemical, Petrochemical & Utilities
- Colleges & Universities
- Commercial Real Estate
- Defense & Aerospace
- Financial Institutions
- Government Services
- Healthcare
- Manufacturing & Industrial
- Public Transportation
- Residential Communities
- Shopping Centers

Allied Universal Today - Around the Globe

Allied Universal's Service Offerings

Technology (approximates)

Through its "Thrive" central monitored station located in Richardson, TX, AUS provides:

- Access Control Services
- Alarm and Intrusion Detection Services
- Industrial Video Systems Services

AUS also recently:

- Rolled-out Global Security Operations Center as a service offering (GSOSaaS), through several collaborative partners at its Monitoring and Response Center (MaRC) based in Richardson, TX
- Partnered with Knightscope and additional robotic providers to form strategic partnerships in the realm of unmanned systems, including drones, and artificial intelligence
- Launched the "Partners in Employment Community-Based Program" to tap into local resources to fulfill various security professional, field and management positions

ALLIED UNIVERSAL SECURITY SERVICES

Direction

Excerpt from a *Security Systems News* article on October 5, 2017

Security has finally gone from reactive to predictive and that is where we want to sit," Steve Jones, Allied Universal CEO, told *Security Systems News.* "With some of these products we are gathering info and using AI (Artificial Intelligence) and analytics, so we can help our customers learn of all of the potential threats and adjust their security stance based on that intelligence."

Through Allied Universal's Monitoring and Response Center, a focused recruiting operation provides specialized sourcing of GSOC operators and analysts that can be dedicated at a client's location or reside inside the MaRC. These resources are critical to the analysis, reporting and communication of critical events as well as managing all physical and operational information workflow.

"Businesses are seeking the best practices and technology to prepare and prevent threats, minimize risk and keep their employees and assets safe," Ty Richmond, Allied Universal president, Integrated Security Solutions and Technology, said in the announcement. "Through our new integrated GSOC offerings and partners, we're providing a single sourcing capability with the latest platforms and tools to accomplish this in an ever-evolving and complex world."

Jones pointed out Richmond worked closely with Silicon developers to create the ThreatMinder software program in-house, which was developed "to give our clients 'true intel' and offer this as a service to help our customers to really be prepared for things that they may not even know about," said Jones. "We do system integration like everybody else, but we really think these products are different than what is being offered, especially as a combined solution."

Richmond told SSN, "it is a broader managed services offering. Traditional integrators don't have the benefit that we have of being a man-guarding operation that sits in security operations centers, so we are attuned to providing the systems, the technology and the intelligence that customers are demanding. These new platforms and products are just another extension of that and is part of our overall capability."

PROSEGUR

Key Performance Indicators

Figures in €m

Revenue (€m)	(1.13 average exchange rate)	
SALES	$4.9bn ← 4,291	*+10.0%* Organic growth
EPS *(Earnings per share)*	0.25	

18 COUNTRIES

+170,000 EMPLOYEES WORLDWIDE

>9,000 ARMORED VEHICLES

>100,000 MANAGED ATMS

500,000 ALARM CONNECTIONS

OVER **200** FULLY INTEGRATED ACQUISITIONS

Source: Prosegur IR Corporate Presentation FY17 Results

Prosegur History

Prosegur had its beginnings in Madrid, Spain in 1976, and is a business group comprised of Prosegur Compania de Seguridad, S.A.; and its subsidiaries that operate in 18 countries.

The Prosegur parent company is listed on the Madrid stock exchange and 50.075% of the shares are owned by Mrs. Helena Revoredo Delvecchio, the Chairman of Prosegur.

Its life span of over 40 years is delineated below:

- 1980 - Opened Branch in Portugal
- 1987 - Becomes a Public company on the Madrid exchange
- 1992 - Created the Alarm division
- 1994 - Helena Revoredo appointed Chairman of Prosegur
- 1995 - Started operations in Latin America
- 2008 - Christian Gut becomes Chief Executive Officer
- 2011/2012 - Started operations in Asia, Germany, China and Brazil
- 2014 - Added Cyber Security to the service offerings
- 2017 - Launches IPO of Prosegur Cash

Source: Prosegur Website

Prosegur Today - Around the Globe

Prosegur presently provides security services to commercial and individual customers located in 18 countries on 5 continents. It presently doe not have any business operations in the United States of America, the largest security market in the world.

Prosegur has completed over 200 acquisitions. All have been successfully integrated. These acquisitions, in conjunction with attractive organic growth, enabled Prosegur to finish the 2017 year with total revenues of € 4.291 billion ($ 4.9bn), an increase in excess of 10 % over the 2016 year, of which 11.4% represents organic growth and .5% represents growth mainly derived from acquisitions during the 2017 year. It had an EBITDA margin of 12.2% (vs. 11.7% in 2016) and Earnings Per Share of .25 Euros (vs. .22 Euros per share in 2016). In March of 2017, Prosegur's cash business – "Prosegur Cash" started trading on the Spanish Stock Exchange.

Prosegur is presently operating under approx. 180 collective bargain agreements (over 200 separate unions).

Through the Prosegur Foundation, established in 1983, the Company contributes heavily to giving back to the communities and the people within the community. The foundation presently helps communities and its people in 10 countries. In the year 2016 Prosegur, through the foundation, invested EUR 2.6 million and completed 29 projects.

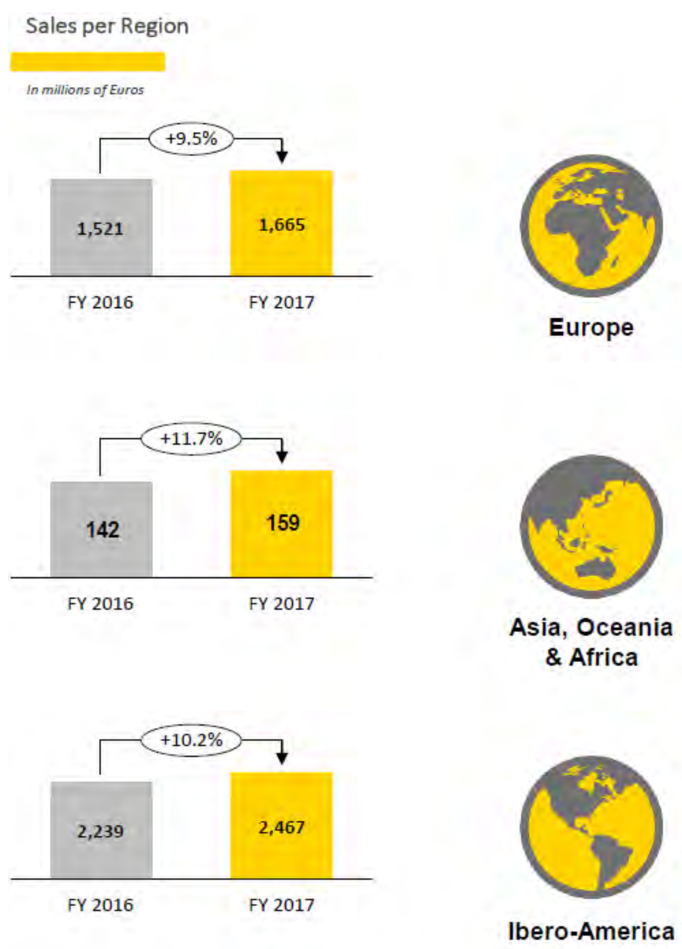
Source: Prosegur Company Presentation 2017

Prosegur Today - Around the Globe

Prosegur's Footprint

Prosegur serves customers in 18 countries: Spain, Portugal, France, Luxembourg, Germany, Argentina, Brail, Chile, Peru, Uruguay, Paraguay, Mexico, Colombia, Singapore, India, China, Australia and South Africa.

Three Operating Regions:



Source: Prosegur Company Presentation 2017

PROSEGUR

Prosegur Today - Around the Globe

Prosegur's Service Offerings

In 2015, Prosegur moved to a new organizational model: "One Group, Three Businesses". The Three lines of businesses compromise - Cash, Security, and Alarms.

PROSEGUR CASH

It provides services ranging from the basics of securities logistics and cash management to the outsourcing of high added-value services. This business is mainly focused on the banking and distribution sectors.

- It is the second largest provider of cash services in the world with 14% market share (vs. 7% in 2007)
- Number 1 in its focus cash markets (13/15 countries)
- Employs 60,000 people
- Utilizes over 9,000 armored vehicles

For 2017:

- Revenues of €1.924bn ($2.2bn)
- Growth Rate of almost 12%
- Increased Revenues over 400% in the past 7 years
- Produced an EBIT Margin of 18.7%

Source: Prosegur Company Presentation 2017

Prosegur Today - Around the Globe

Prosegur's Service Offerings

PROSEGUR SECURITY

It provides services that are the result of combining technology with professionals. This area includes, mainly, the activities of manned guarding, including the protection of premises, property and persons, together with activities related to technological security and cybersecurity solutions..

- Ranks #4 amongst the world leaders in manned guarding
- Employs 103,000 people
- Had industry leading technology-based solutions

For 2017:

- Revenues of €2,115bn ($2.4bn)
- Growth Rate exceeding 8%
- Produced an EBIT Margin of 4.0%

PROSEGUR ALARMS

It has a wide range of services that help to improve the security, and security of families and businesses. It includes the installation and maintenance of home alarms, as well as alarm monitoring by the ARC.

- Provides alarms for residential and commercial customers
- Over 500,000 total connections - in 10 countries
- Employs 7,000 people

For 2017:

- Revenues of €250m ($282.5m)
- Growth Rate exceeding 17% annually

Source: Prosegur Company Presentation 2017

Prosegur Today - Around the Globe

Prosegur's Service Offerings - By Lines of Business

Lines of Business	Iberia	Latam South	Europe	Latam North	Asia-Pacific	Africa
Cash	●	●	●	●	●	●
Guarding	●	●	●	●	●	
Other Services	●					
Technology	●	●	●	●	●	
Alarms	●	●	●	●	●	●
Cyber Security	●	●	●	●	●	

Source: Prosegur Company Presentation 2017

PROSEGUR

Direction - Around the Globe

Direct quote from 2017 Annual Report regarding Prosegur's direction:

"Forecasts for 2018 are optimistic. Prosegur will continue strengthening its internal control procedures that ensure efficiency in its various businesses, the maintenance and control for the group's financial discipline and the reinforcement of corporate control policies designed to provide greater control of profitability by business line and greater focus by the countries on organic growth via new products with greater margin. This comprehensive level of internal control and optimization allow internal improvements and growth in cash generation in 2018, continuing the path already begun in previous years."

Results for the first Quarter 2018:

From Prosegur Press Release

- Sales reached €1,008m and growth of 8.6% in local currency was reported for the overall activity in all business lines
- The net operating profit (EBIT) was €99m and has been accompanied by an improvement in the EBIT margin, which increased from 9.5% to 9.9%. With these results, Prosegur recovers the group's historical margins

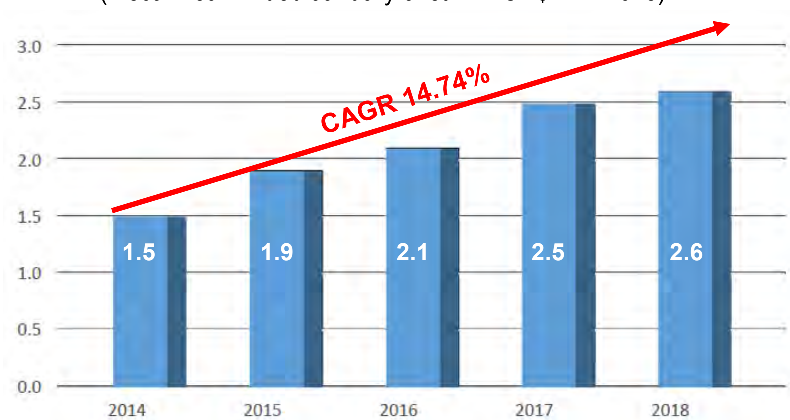
GARDAWORLD

History

GardaWorld was founded in 1995 by Stéphan Crétier, current Chairman and CEO, with an investment of $25,000 from a second mortgage.

The Company initially provided manned guarding services in Canada and grew organically and through acquisitions to eventually be listed on the Toronto Stock Exchange in 2003. Since then GardaWorld has significantly diversified its service offerings and geographical footprint with strategic expansions in cash handling services (Canada and U.S.), pre-boarding airport security screening (Canada), manned guarding in emerging markets (Middle East and Africa) and travel security services. Today, GardWorld is one of the world's largest security services providers, employs over 65,000 highly trained professionals and offers a range of highly focused business solutions to clients throughout North America, the Middle East, Africa and Europe.

Revenue History with Compound Annual Growth Rate
(Fiscal Year Ended January 31st - in CN$ in Billions)



Source: GardaWorld's Annual Report and Management

GARDAWORLD

GardaWorld Today - Around the Globe

GardaWorld's Service Offerings - By Lines of Business

CASH SERVICES

GardaWorld is one of the leading Cash Services providers in North America. Its platform is comprised of more than 120 locations, more than 3,400 vehicles and 150 cargo aircraft serving more than 13,500 customers. The company's clients include major banks and financial institutions, retailers, restaurants, and government agencies. Processing approximately CN$5 billion daily and performing approximately 70,000 secure pickups a day. GardaWorld's expertise adds value to its client's risk mitigation and helps improve their productivity, processes and systems. The Corporation is the only non-bank Cash Services Company with Tier 1 Bank processing capabilities and industry's exclusive large capacity ultra-high speed image processing platform.

PROTECTIVE SERVICES

North America

GardaWorld Protective Services is Canada's leading security provider, safeguarding people and assets in more than 140 cities across the country for over 5,000 clients in various sectors, such as: natural resources, property management, health care, governments, retail, special events, and transportation. The corporation also provides airport pre-board security screening at 28 airports across Canada including Toronto, Calgary, Ottawa and Edmonton. Its flexible workforce, comprised of 25,000 highly-trained security professionals, provides licensed security guards, mobile patrols, alarm response units, labor disputes, security crisis management, special events security management, as well as consulting and investigations services. Three national command centers operate 24 hours a day, 7 days a week, to efficiently mitigate challenges and threats. The ISO 9001 certification sets the company apart as it is one of only two private security providers with nationwide certification.

In March 2018, GardaWorld acquired United American Security LLC (UAS), a leading security player with 24 branches and 3,600 employees across 16 states spanning the Midwest, Mid-Atlantic, Southwest and Southeastern regions of the United States.

Source: GardaWorld's Annual Report

GARDAWORLD

GardaWorld Today - Around the Globe

GardaWorld's Service Offerings - By Lines of Business

PROTECTIVE SERVICES (Continued)

International

Organizations are increasingly expanding outside their core markets to stimulate growth. GardaWorld International Protective Services works in complex, high threat and emerging markets, providing risk mitigation services when and where they are needed most. Its international security and risk team of professionals delivers flexible, discreet, avoidance-based security and protective services to secure people, assets and reputation, and gives its clients the confidence to grow their business. GardaWorld employs more than 26,000 staff in the emerging markets to provide protection, training and crisis response. The corporation is fully licensed and compliant with local regulatory standards in all countries in which it operates.

As a founding signatory of the International Code of Conduct for Private Security providers the company is trusted by its clients in the diplomatic, development, defense, oil & gas and critical infrastructure sectors as a transparent and responsible partner. GardaWorld is additionally certified to ANSI/ASIS PSC. 1-2012, ISO 9001, 14001, 22301 and BS OHSAS 18001. Every service in the world that is delivered by GardaWorld is covered by these certifications. It is the only private security company in the world certified to this level of compliance.

Source: GardaWorld's Annual Report

GARDAWORLD

GardaWorld Today - Around the Globe

GardaWorld's Revenue - By Service Offerings *(All amounts are in CN$, unless otherwise stated)*

REVENUES - Fiscal Year Ended January 31, 2018

Revenues for the fiscal year ended January 31, 2018 were $2,641.4m, compared with $2,474.2m last year - an increase of $167.2m or 6.8%. Revenues from business acquisitions increased by $105.0m or 4.2% explained mainly by the Kenya Kazi Limited acquisition "KK Security", organic growth of $81.6m and the impact of foreign exchange which decreased by $19.4m.

Protective Services' revenues increased by 12.3%,
while *Cash Services'* revenues decreased by 1.6%.

CASH SERVICES

Revenues for the fiscal year ended January 31, 2018 were $976.4m, compared with $992.3m last year, a decrease of $15.9m, or 1.6%. Revenues from existing business decreased by $1.3m or 0.1%. The impact of foreign exchange has decreased revenues $14.6m in comparison to last year.

Cash Services' revenues in Canada for the fiscal year ended January 31, 2018 were $247.8m, compared with $248.4m last year, a decrease of $0.6m or 0.3%. *Cash Services'* revenue in the United States were $728.6m for the same period compared with $743.9m last year, a decrease of $15.3m or 2.0% mainly attributable to foreign exchange.

Source: GardaWorld's Annual Report

GARDAWORLD

GardaWorld Today - Around the Globe

GardaWorld's Revenue - By Service Offerings *(All amounts are in CN$, unless otherwise stated)*

REVENUES - Fiscal Year Ended January 31, 2018

PROTECTIVE SERVICES

Revenues for the fiscal year ended January 31, 2018 were $1,665.0m, compared with $1,481.9m last year, an increase of $183.1m, or 12.3%. Revenues from business acquisitions increased by $105.0m and revenues from existing business increased by $82.9m. The impact of foreign exchange has decreased the revenues by $4.8m in comparison to last year's period.

Protective Services' revenues in Canada were $861.9m, compared with $808.2m last year, an increase of $53.7m or 6.6%, mainly related to existing business.

Revenues from emerging markets for the fiscal year ended January 31, 2018 were $803.1m compared with $673.7m last year, an increase of $129.4m or 19.2% of which $102.3m is attributable to business acquisitions and $31.9m to existing business.

Source: GardaWorld's Annual Report

GARDAWORLD

GardaWorld Today - Around the Globe

GardaWorld's Revenue - By Service Offerings *(All amounts are in CN$, unless otherwise stated)*

REVENUES - 1st Quarter February - April 2018

Revenues for the first quarter of fiscal 2019 were $678.4m, compared with $642.4 million last year - an increase of $36m or 5.6%. Revenues from organic growth increased by $17.6m and revenues from business acquisitions increased by $33m or 5.2% explained mainly by the United American Security LLC and the Primary Response, Inc. acquisitions. The impact of foreign exchange has decreased revenues by $14.6m.

Protective Services' revenues increased by11.9%,
while *Cash Services'* revenues decreased by 4.5%.

CASH SERVICES

Revenues for the first quarter were $235.7m, compared with $246.8m last year, a decrease of $11.1m, or 4.5%. Revenues from existing business decreased by $3.2m or 1.3%. The U.S. dollar weakness has decreased revenues by $7.9m quarter-over-quarter.

Cash Services' revenues in Canada for the first quarter were $59.1m, compared with $62.1m last year, a decrease of $3.0m or 4.8%. *Cash Services'* revenue in the United States were $176.6m for the first quarter, compared with $184.7m last year, a decrease of $8.1m or 4.4% mainly attributable to foreign exchange.

Source: GardaWorld's Annual Report

GARDAWORLD

GardaWorld Today - Around the Globe

GardaWorld's Revenue - By Service Offerings *(All amounts are in CN$, unless otherwise stated)*

REVENUES - 1st Quarter February - April 2018

PROTECTIVE SERVICES

Revenues for the first quarter were $442.7m, compared with $395.6m last year, an increase of $47.1m, or 11.9%. Revenues from business acquisitions increased by $33.0m or 8.4% and existing business increased by $20.8m or 5.3%. The U.S. dollar weakness has decreased the revenues by $6.7m quarter-over-quarter.

Protective Services' revenues in North America were $252.3m, compared with $203.6m last year, an increase of $48.7m or 24.0%, mainly related to the acquisition of UAS.

Revenues from emerging markets for the first quarter were $190.4m compared with $192.0m last year, a decrease of $1.6m or 0.8%. Revenues from existing business increased by $5.1m or 2.6%. The U.S. dollar weakness has decreased revenues by $6.7m quarter-over quarter.

Source: GardaWorld's Annual Report

History

U.S. Security Associates began in 1993 when two seasoned security executives, Charles “Chuck” Schneider and Kenneth Oringer, left Baker Industries, the then parent company of Burns and Wells Fargo, to team with Golder, Thoma and Cressy - a large Chicago based private equity group - to buy the $70 million manned guarding subsidiary (Advance Security) from Figgie International (NYSE). Following this acquisition, Advance was rebranded U.S. Security Associates, Inc. and in 1996 GTC sold its holdings to Windpoint Partners that held its ownership for an unprecedented 13 years before selling to Goldman Sachs in 2010. in 2014, Richard Wyckoff became CEO and continues to lead the organization today.

From its inception, USSA has consistently grown through acquisitions and organically - boasting approximately 50 successful transitioned purchases and attractive organic growth percentages that has enabled it to reach a volume of approximately $1.5 billion today.

Since USSA is not a publically traded company, it does not make its financial results available to the general public, however, management has provided certain publically available key marketing information for inclusion in this White Paper.

Key Performance Indicators

171
Branches across the U.S. and Internationally

~6,700
Customers

50,000+
Number of Employees

~$1.5bn
2017A Revenue

3.0%+
2017A Y-o-Y Revenue Growth

U.S. Security Associates Today - Around the Globe

U.S. Security Associates' Service Offerings - By Lines of Business

Manned Guarding Solutions

Highly skilled and dedicated team of security officers for commercial, as well as Federal and State Government facilities

- Provides manned guarding, access control, active shooter training, control room, disaster response, fire detection, theft, intrusion, reception and concierge services
- Officers undergo consistent training through the Company's proprietary, industry-leading, training and development program

Consulting and Investigations

- Provides diversified risk assessment and mitigation services
- Conducts investigations, litigation support and business intelligence
- Forensic cyber data investigations and penetration testing

Event Staffing

- Staffs security for concerts, sporting events and conferences
- Offers turnkey solutions from pre-planning to post-show wrap-up

Emergency Services

- Capable of rapid mobilization in cases of natural disasters, labor disruptions, and crisis driven situations
- Conducts tailor-made training programs and drills led by specialists, including active shooter readiness

U.S. Security Associates Today - Around the Globe

U.S. Security Associates' Service Offerings - By Lines of Business

Technology Solutions

Proprietary technology platform enhances security program effectiveness

- The platform includes:
    - Portal
    - Mobile
    - Remote
    - Robotics

- Enables officer tracking, incident reporting, visitor management, remote monitoring and insight analysis

- "Predict and Prevent" instead of "Detect and Respond"

Note: Press release dated July 16, 2018 indicated that Allied Universal intends to purchase U.S. Security Associates in a $1bn transaction - subject to customary approvals.

SIZE OF THE INDUSTRY — REVENUES AND NUMBER OF COMPANIES

TREND: Most of the industry reporting agencies are in agreement on the size of the market (currently about $25.5 billion with adjustments). Based on recent trends and results of a survey by our office - there will be real growth in the overall market figures - an insignificant amount from companies converting from "in-house" to contract security; with most of the growth coming from the national and regional companies increasing their electronics, systems integration and integrated guarding offerings.

We are also estimating the U.S. Contract Security Industry to be approximately $25.5 billion (a 4% increase) to include the other services being offered by the traditional manned guarding companies, such as remote video monitoring and integrated guarding, with a small amount coming from drones, robots and cyber security offerings. This $25.5 billion estimate is consistent with the latest figures published by the marketing research firms Freedonia, IBIS World and Hallcrest, in conjunction with their 4 - 5% projected growth over the next 5 years.

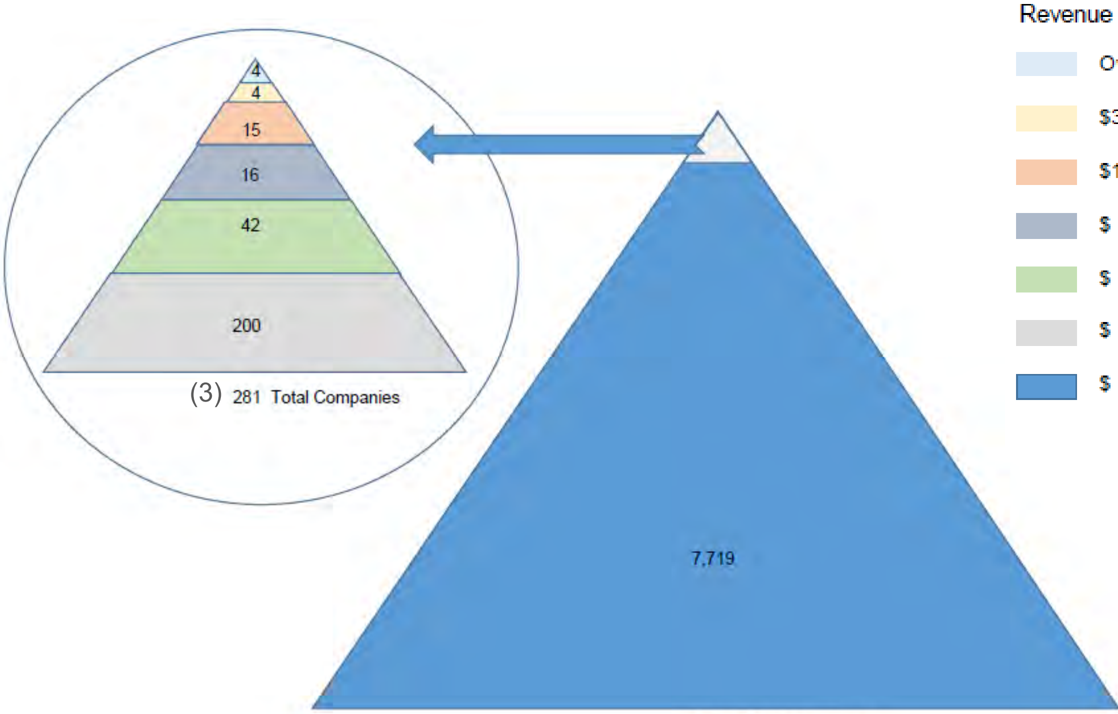
It is also consistent with our confidential internal files that identify the revenues, company-by-company, of many of the estimated 8,000 companies operating in the U.S. The combined revenues for these companies are approximately $22 billion with the remaining $3.5 billion in revenues coming from the smaller companies, for which we don't have specific revenue numbers.

This chart details our estimate of the growth for the industry for 2017 (by source), with a significant amount of the growth this year, as in prior years, coming from the Electronics/Systems Integration offerings; detailed in the overview of the U.S. operations of the six world leaders. Many of the company owners that participated in our survey indicated that they were able to obtain billing rate increases from their customers to help offset the wage inflation resulting from the record low unemployment rates. We estimate that, based on this survey, 1.6% of the growth in the market is the result of these billing rate increases. Also, this year our survey revealed that many of the larger regional companies were growing through existing customers adding billing hours or obtaining new customers who previously did not have contract security. We estimate that 1.2% of the 4% growth in the manned guarding sector for the National/ International and Regional companies was the result of real growth in the new security provided and not a play on increase in rates.

Source of Revenue Increase

Source	Large Companies	Regional and Small Companies	Total Industry
Electronics/Systems Integration	1.2%	minimal	1.2%
Manned Guarding:			
New Revenue	0.6%	0.6%	1.2%
Billing Rate Increases	1.0%	0.6%	1.6%
Percent Increase	**2.8%**	**1.2%**	**4.0%**

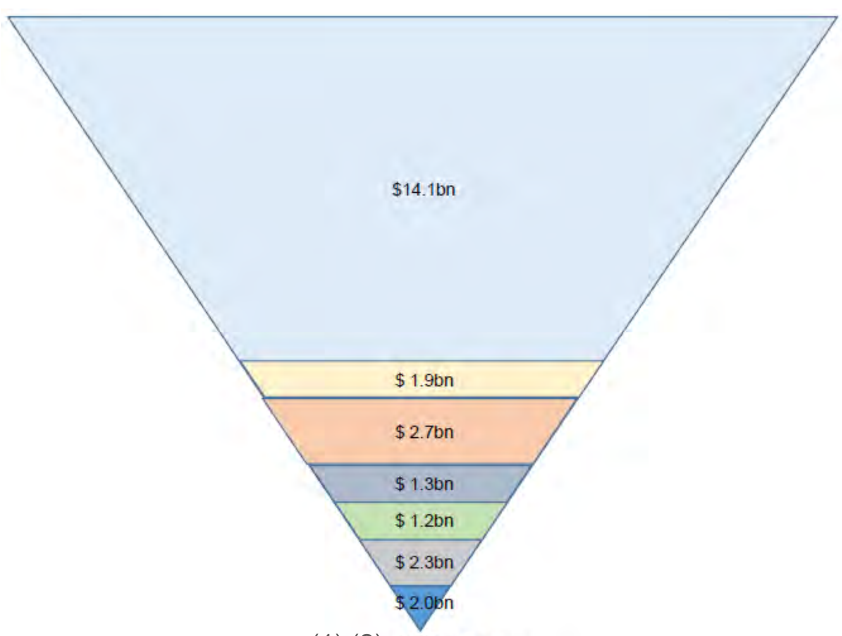
SIZE OF THE INDUSTRY — REVENUES AND NUMBER OF COMPANIES



(2) 8,000 Total Companies

Revenue Category	# of Companies
Over $1bn	4
$300m - $1bn	4
$100m - $300m	15
$ 50m - $100m	16
$ 20m - $ 50m	42
$ 5m - $ 20m	200
$ 0 - $ 5m	7,719
	8,000

Market Size in Dollars



(1) (2) $25.5bn Revenue

1. Total market size estimated from recent Freedonia and IBISWorld reports, and files of RHPA
2. Arithmetical function to come to the 8,000 companies and $25.5 billion revenue
3. Information from annual reports and files of Robert H. Perry & Associates, Inc.

EMPLOYEES

TREND: The number of employees in the U.S. Contract Security Industry increased by an insignificant amount for this 2018 report. Although the total revenues were up 4%, a lot of the increase came from the systems integration/integrated guarding sectors (both low labor intensive) - with minimal growth in the number of additional security hours added, or in-house converting to contract security.

Number of Employees

It still remains a challenge to find credible information on the number of people working in the contract security industry in the United States. The most common sources are the following, but as indicated, the numbers provided include services not commonly provided by traditional manned guarding personnel:

1. A 3 year old ASIS/IOFM survey, which indicated that there are between 1.75 and 1.93 million full-time workers in service of operational security in the U.S.- which includes outsourced and in-house security officers, as well as other positions not normally classified as manned security personnel.

2. A May 2017 Occupational Employment Statistics Report by the Bureau of Labor Statistics report that indicates a total of 1,105,440 “Security Guards”, but also includes some categories of labor not normally classified as manned security personnel.

Therefore, we went to published reports for the large companies and our internal files for the small companies. We arrived at 810,000 estimated employees in the industry based on a ratio of employees to total revenue as reported by the large companies along with our estimate of the number of employees for the smaller, non-reporting companies; after adjusting for more part-time employees in this latter category.

Number of Employees - Contract vs. Public Police Force

A July 29, 2016 *Wall Street Journal* article titled “Is America Facing a Police Crisis?” indicated that there are approximately 900,000 U.S. public law-enforcement officers. This puts the number of outsourced contract security personnel at about 10% less than the number of public law enforcement officers.

EMPLOYEES

TREND: Average wages for U.S. contract security officers are increasing due mostly to more aggressive unionization and higher minimum wage mandates AND recently, the low unemployment rates driving down the availability of qualified security personnel.

Compensation

A May 2017 U.S. Bureau of Labor Statistics report also indicated that the median wages for contract security officers were approximately $14 per hours worked; and $28,960 for full-time gross annual pay. These figures vary significantly depending on the area of the country, union members and whether or not the employees are working at a Federal government facility where the wage and benefits are mandated by the Federal government contract vs. a commercial site.

Armed Employees

Based on our in-house records of the hundreds of manned guarding companies with which we have consulted over the past several years; it is estimated that, contrary to public opinion, less than 10% of security officers working for contract security companies carry weapons. The ones that are armed today are more thoroughly vetted upon employment and go through extra training to qualify to carry the weapon. Further, many contract security companies hire off duty policemen to fill the posts requiring an armed security officer.

However, as more and more incidences occur that could have been prevented by a weapon carrying security officer, the security customers are demanding that their contract security company find ways to meet this need.

Certain industries prone to increase in violence are already experiencing a ramped up demand for armed security officers. A February 12, 2016 article in the "Beckers Hospital Review" said this about the increase in the need for weapons: "In 2014, 52 percent of hospitals reported their security personnel carried handguns, while 47 percent reported arming them with Tasers. According to a national survey cited by *New York Times,* those numbers are more than double the estimates from just three years prior."

EMPLOYEES

Armed Employees

Also, in a May 30, 2018 *New York Times* article, Richard A. Oppel, Jr. wrote about the call for “armed guards” in the Texas Governor’s school safety plan:

He wrote … “two weeks after a student armed with a sawed-off shotgun and a revolver killed 10 people at a high school outside Houston, Gov. Greg Abbot of Texas on Wednesday proposed spending more than $100 million to put more police and armed guards on school campuses and expand programs to identify students at risk of engaging in mass violence.”

Many contract security companies today, in an effort to try to limit their liability in issuing weapons, while at the same time providing security the customers are demanding, have responded to this need by equipping certain of their security officer personnel with “Intermediate Services” – a term used to describe “Non-Lethal Weapons”. There have been great strides in developing and improving on the non-lethal weapons in use today. Unlike the stun guns of the past, with limited range, these new non-lethal weapons can produce a pepper spray chemical from as far away as 10 feet, with pin point accuracy. Further, these new devices are outfitted with cameras that record every event, to be used as evidence and support of the officer’s need to use this type of force to disable the intruder

THE FACTORS CAUSING GROWTH AND CONTRACTION IN THE INDUSTRY

TREND: The two large industry reporting agencies (Freedonia and IBIS World) predicted 4% growth in the industry through 2017, with lesser growth during the next 5 years. As indicated on page 48, the growth in the manned guarding market coming from an increase in billable hours to existing customers or bringing on new customers that previously did not have contract security represented about 75% of the market growth. The remaining market growth has been in the traditional manned guarding companies adding electronics, integrated guarding and systems integration components to their service offerings.

Growth Factors

Below are sources of the "potential" growth for new security in the industry - much of this reporting period's growth coming in the form of "integrated guarding" from existing customers, with a minimal amount coming from new entrants in the outsourced security market:

IN-HOUSE CONVERSIONS - $21 Billion Market
PRESENT CUSTOMERS INCREASING SECURITY
COMPANIES PRESENTLY WITHOUT SECURITY

The move to increase or add security (i.e.; resulting in "real growth" in the industry); or make a change in the security provider will be brought about by the following factors:

Cost Considerations

Companies, (and more recently, municipalities) looking to cut costs are eliminating their in-house security program and using contract security companies. Typically, in-house security employees will cost their employer more due to long term tenure with the company and expensive retirement benefits. By contracting out the security function, companies and municipalities are getting better trained security personnel, in many cases, for less total outlay. Although there were many companies making this move during this reporting period, the amount of new revenue generated was minimal when compared to the $25.5 billion market.

THE FACTORS CAUSING GROWTH AND CONTRACTION IN THE INDUSTRY

Growth Factors

Increasing Crime and Terrorism

Immediately after 9/11 there was a large spike in outsourced security, which eventually settled back down. However, over the past couple of years, the U.S. has experienced a higher crime rate in many of the major cities, along with the continuing fear of "soft" terror attacks or another devastating one like the 9/11 massacre.

Also, there's been a growing number of mass murders in our schools, theatres and shopping malls; and growing concerns over airports, nuclear sites, subways, hospitals, and sporting events – all having a chilling effect on our nation. All this points to a compelling reason to initiate or ramp up security at these other locations where large number of people are gathered. This is adding to a tremendous amount of uneasiness within our country and a need to offer better protection to its citizens.

The Local, State and Federal Agencies are Outsourcing Security Functions

The public police forces are, in most cases, operating on limited budgets, with outdated equipment and a low morale due to the attacks on policemen by our local community. Many insurance companies, as well as municipalities, are now demanding that companies provide adequate protection. The companies that have a need to protect their property and employees will be looking to the outsourced market as a way to respond to this ramped up demand. Many of the larger security companies started preparing for this increase in demand several years ago and are ready to respond. Most of the smaller companies have not been able to afford the training and technology required to handle this type of security, thus may not be in a position to see growth in these vertical markets.

Many of the larger security companies started preparing for this increase in demand several years ago and are ready to respond. Most of the smaller companies have not been able to afford the training and technology required to handle this type of security, thus may not be in a position to see growth in these vertical markets.

It is estimated that the largest growth in the contract security industry may be coming from airport passenger screening and other airport security functions presently handled by the Transportation Security Agency (TSA) in most of our airports. There are presently around 20 airports in the U.S. using outsourced security - the largest being San Francisco. However, many other large airports are considering making the change. [See page 86 for more details]

THE FACTORS CAUSING GROWTH AND CONTRACTION IN THE INDUSTRY

Growth Factors

The Need to Upgrade the Security Functions

Many companies today are finding that their in-house force isn't prepared to handle a major crisis. Therefore, they're looking to outsource this function, not only for the cost savings described above, but also to make sure they have the right security in place when it's needed. The contract security company will, in most instances, have better trained personnel and more state-of-the-art technology to handle the security challenges of today. After all, it's the contract security company's goal to have the best and most effective security at competitive prices (the competition makes sure this happens); that's what they do and they have to do it best.

Enhancing Manned Guarding with Electronics

A recent survey by our firm indicated that many contract security companies today, that are actually growing, are doing so by offering systems integration, integrated guarding or some other type of electronic security enhancing services. So far, there hasn't been signs of a large number of customers replacing security personnel with electronics or reducing the guard force significantly. See page 34 for a more detailed discussion on this topic.

Contraction Factors

Companies Closing

Certain industries adversely affected by the downturn in the economy a few years ago are just now closing locations, thereby eliminating the need for security once needed in those areas.

Converting to In-House Security

Some companies are eliminating contract security and using their own personnel to handle the security functions as a way to justify keeping the valuable employees ... however, the converse of this is true in many instances as mentioned under "Growth Factors" on page 53.

Replacing Manned Guarding with Electronics

Some companies are eliminating security officers entirely and replacing with electronic security; and some companies are just reducing the security force and supplementing with "integrated guarding" or other electronic security options. More on this topic under "Manned Guarding Converging With Electronics" on the following page.

MANNED GUARDING CONVERGING WITH ELECTRONICS

TREND: The large security companies continue to invest heavily in technology and other electronic services in order to enhance their position in being a "one-stop" security company able to service most, if not all, of the security needs of its customers. These companies project large continuing growth in the electronics sectors; surpassing the growth in traditional manned guarding services.

There were several attempts to converge manned guarding with electronics as far back as 30 years ago, but it was met with little to no success. The market wasn't ready for it and the technology to make it happen didn't exist.

Convergence began taking traction about 10 years ago - a few years after the events of 9/11. Customers became more demanding in their security requirements, but still resisted the higher billing rates. Technology was advancing quickly - the GPS was beginning to take off, as well as Bluetooth and the "Cloud" technology. These advances got the attention of the large security companies that recognized technology as a way to improve the security function; thereby answering the customers' demands for better and cheaper security, while at the same time setting themselves apart from their plain vanilla manned guarding competitors. These companies had large financial resources and began investing heavily in technology and finding ways to use it to not only improve their internal reporting systems, but also as a way to sell this technology to the customers to enhance the security function, at usually a lower cost overall.

Today, this advanced technology is labeled in different ways depending on the company offering it. Often it is referred to as an integrated security, where technology (maybe in the form of video monitoring) is combined with a standing security officer and/or a roving security vehicle patrol. The technology may also be in the form of selling, installing, servicing and monitoring sophisticated integration systems for large corporate campuses or much smaller sites requiring control over the access or egress of employees and customers. The more advanced technology can alert the general public to potential terrorist activity anywhere around the world - sometimes before the event happens; or serves to protect our computer systems from unauthorized access (i.e., cyber security).

As mentioned in the World Leaders section, the mega security companies are growing faster in their electronics offering than traditional manned guarding.

MANNED GUARDING CONVERGING WITH ELECTRONICS

Not only are the large traditional manned guarding companies growing faster in their electronics offerings, but the alarm companies - that used to be mostly residential providers - are now growing fast in the commercial markets. A case in point is ADT: ADT used to service exclusively the residential market, but now the commercial market represents 25% of its $4.5bn in revenue, and growing. ADT entered the cyber security market through its purchase of DataShield in December of 2017. DataShield was founded in 2009 and provides cyber security solutions in conjunction with managed detection and response (MDR) services across various lines of industries.

This expansion in commercial electronics by both the traditional manned guarding and alarm companies has expanded the customers' choices for providers and has opened up a new and much higher level of competition amongst well-financed, multi-functional security companies.

The electronics industry is outperforming the manned guarding industry overall.

Overall, the electronics sector of security is performing better than the manned guarding sector. Michael Barnes, President of Barnes Associates, a well-known and respected M&A and consulting firm specializing in the electronic security industry, indicated the following in his popular industry overview report at the Barnes-Buchanan conference (now in its 23rd year) in Palm Beach in February 2018:

- Total U.S. revenues for the alarm monitoring/service and systems integration companies are now $58bn - ⬆ 6%
- Total U.S. installation revenue is now $29bn - ⬆ 4%
- Total U.S. alarm monitoring/service revenue is now $29bn - ⬆ 7%
- The MSO Conglomerates (Multiple Service Offerings - the telecoms/cablecoms) that have steadily entered the market over the past five years showed a year-over-year increase of 16% (down slightly from the previous year). The MSO's account for about 6% of the total electronics security market - up 1% from the last reporting period.

Many of the telecom/cablecom and internet giants making up the MSO's such as AT&T, Time Warner, Comcast, Comporium, Cox, Direct TV, AT&T, and Century Link have entered the home electronics security market. Amazon is the most recent entrant into the market, and by far the most concerning to the other players in the electronic security industry. In fact, when Amazon bought Ring, a maker of systems that connect doorbells with security cameras, in February 2018, the share price in ADT's just completed public offering took a fall (see details of ADT's public offering on page 68).

MANNED GUARDING CONVERGING WITH ELECTRONICS

There have been recent news articles indicating that other MSO's are considering this move as well – a natural progression for these conglomerates to expand their service offerings for their millions of customers. Some experts in the industry are saying that this could indicate a game changing event for the present providers of electronic security. One scenario is that the MSO's would have to partner with the existing electronics companies to handle the installations, service and response (which is already happening), and to help overcome their often less than stellar reputations for reliable service. Also, many of the systems provided by the MSO's are DIY systems - in the case of Ring. The MSO's do not presently provide a central monitoring station and are passing this on to existing monitoring companies. This is good news for some of the existing electronics companies. While others are saying that these companies have a very large band-width that takes competing in the electronics sector to a whole new level and that would be concerning.

The "Converging" Challenge . . .

As part of our research for this year's White Paper, our firm conducted a survey of owners, which included smaller and regional companies. The responses were evenly split between the owners of companies with no plans to expand the offerings beyond the traditional manned guarding services and the owners of companies that thought they have to expand their services to compete in this "new" marketplace. Some of the owners indicated that they have teamed with technology companies that will enable them to joint venture these services, although the company will, in many cases, not be in control of the quality of the service being provided, thus jeopardizing its relationship with the customer. The respondents who indicated no plans to expand their menus of services thought the expanded menu would be too expensive, or were servicing the type of customers that don't have, and will probably never have, a need for their manned guarding services to be supplemented by some type of electronic security. These companies will continue to be successful in providing personal service oriented traditional manned guarding services; at least until the customers' needs require "integrated" guarding.

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However, as mentioned earlier, the six World Leaders are growing faster in the electronics part of their services than they are in the manned guarding offerings; a sign that more and more of their customers are asking for, and demanding in some instances, that they provide a level of service only available through the integration of electronics and manned guarding. Many of the owners of the smaller companies indicated that they were already losing some of their tenured, valuable customers to the larger security companies that can offer these services.

MANNED GUARDING CONVERGING WITH ELECTRONICS

The Role of Acquisitions in the Convergence Process . . .

Here is the story of how the industry leaders are using acquisitions to make the move from the traditional "bill by the hour", plain vanilla, highly competitive guarding services, to the more effective and customer demanded "integrated guarding" services, which in most instances, carries a higher margin to the security company provider:

Securitas sold off its electronics system integration business, Niscayah, about 10 years ago, then after finding out that it did in fact enhance the manned guarding business, tried to buy it back. In the buy-back process it lost its chance to acquire the company when Stanley Works outbid Securitas and bought the company for $1.2bn. On June 5, 2014 Securitas bought a 24% stake in Iverify (www.iverify.net), a state-of-the-art video monitoring center headquartered in Charlotte, NC. Then in an even bolder move, on February 1, 2016, Securitas completed the purchase of Diebold's $330m (in revenue) North American Electronic Security business. On June 11, 2018, Securitas purchased the $135m Kratos Public Safety and Security division (a top 10 systems integrator in the U.S.) from Kratos Defense & Security Solutions, Inc. for $70m Cash.

On December 16, 2013, G4S Technology created a new service and maintenance division in Chicago as a way to leverage the technology resources it already had in-house. This new business served to combine already established G4S call centers and hosted video monitoring centers in other parts of the U.S. In addition to its security business (monitoring and installation), G4S Technology has a telecom division.

On December 4, 2013, Universal, purchased THRIVE Intelligence, a state of the art monitoring center headquartered in Dallas, Texas. Through this Thrive monitoring center, and already established systems integration division, Universal will now greatly enhance its "integrated guarding" revenues as it rolls out this service to its more than 6,000 customers created in the merger with AlliedBarton.

In an interview with *Security Systems News*, Steve Jones, the CEO of Allied Universal, said, "Allied Universal is actively seeking acquisitions of security installation companies that will enable Allied Universal to offer installation and technology in all markets. In markets where acquisitions are not available to help us get started, we'll get into it greenfield (starting up an installation business)."

MARGINS

MARGINS AND EBITDA

TREND: The margin percentages (profit at the customer site level) have been trending down for the past five years, but have now leveled off; albeit at a much undesirable lower level. This downtrend in margins has been brought about through competitive pressures and increased direct costs. The profit line shows insignificant change for the regional companies, but a drastic negative change for the small company. The margins and EBITDA for the national and international companies have improved slightly this year due to integrated guarding growing to represent a much larger percentage of the total revenues.

The margins for the small and medium sized companies are usually better than the margins for the large national and international companies

Typically, the well-run, closely-held, small to medium sized contract security company, will have better margins than its larger competitors. The reasons are:

- The smaller contract security company is selling personalized service and many customers are willing to pay extra for this attention not available from its larger competitors.

- The smaller contract security company operates in a limited geographic area or region; thereby cannot service or attract the larger customers with multi-national or international sites. These “national accounts” are mostly handled by the larger national or international security companies, but the competition to win these types of customers is very intense. Therefore, the large security companies will bid these accounts at much lower margins (than the smaller companies are getting for their “local” accounts) in exchange for a larger volume of revenue, the prestige of providing security for some well-known conglomerate, or the possibility of obtaining additional sites or other types of security for this conglomerate at much higher margins after the security company gets its foot in the door.

MARGINS AND EBITDA

On page 64 is a chart showing the typical margins and EBITDA for the small, regional and national/international U.S. contract security companies – with an insignificant portion of the revenue coming from the governmental sector (typically very low margin business). There is no margin or EBITDA information published for the industry, except in the annual reports of the two public companies—Securitas and G4S, which in the aggregate represent 28% of the North American Security market. The information in this chart was prepared based on a review of the annual reports of these two companies and conversations with key executives of the large privately-held companies; as well as financial reports sent to our office by owners of various small and regional privately-held security firms.

The resulting figures in the chart indicate a decrease in margins over the past few years of approximately 4%. However, it's interesting to note that although the margins at the site level have slipped, EBITDA (Earnings Before Interest Taxes Depreciation and Amortization) has remained relatively steady over the past couple of years for the regional companies. This is due primarily to a lot of "belt tightening" at the home office level accomplished by being more efficient in utilizing the non-billable personnel, or eliminating altogether some non-billable personnel through investing in technology. However, the small companies are usually operating at optimum levels of overhead personnel already and do not have much room for decreasing operating costs; hence the reason the EBITDA is decreasing significantly for these smaller companies.

There has been a larger decrease in margins in areas that have recently been unionized as unions force the company to pay union dues and mandate expensive employee benefits.

The overwhelming majority of the owners of the small companies that responded to our recent survey feel the margins will only get worse due primarily to competition from the larger companies and the higher than normal non-billable overtime due to the near historical low country-wide unemployment rates.

MARGINS AND EBITDA

All companies are presently experiencing or anticipating increases in direct costs due to the following factors:

Wage creep through longer tenure of the security officers

Companies are paying more attention to the periodic pay increases than ever before. This is one of the ways they retain loyal, trained security officers in this time of low unemployment rates. However, this wage creep erodes the gross margins if it can't be passed on to the customer in the form of billing rate increases; which often meets with resistance since many customers today are still operating under tight security budgets. Although this may be a rising cost factor, most companies see this as a viable alternative to the much more expensive high turnover of the security officer force.

Affordable Care Act

Many companies have now made a temporary "fix" in their concerns over the ACA, supported by low cost plans and the elimination of the individual mandate. However, this increased cost of doing business still exists for most companies, not only in the mandated premiums but the cost of administering the plans and meeting all the complicated reporting requirements (See page 84 for a detailed presentation).

Increasing Unionization

See page 85 for a detailed presentation

Increase in minimum wage

See page 84 for a detailed presentation

Mandated benefits

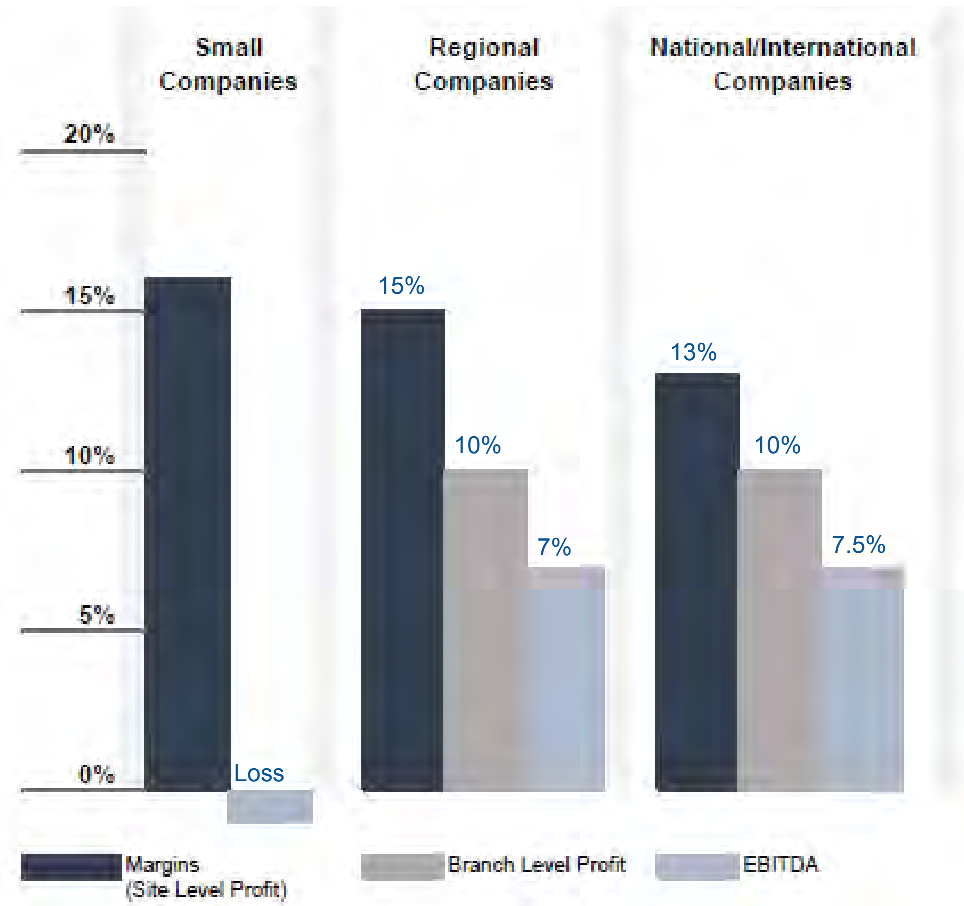
Some states already have a 3-day sick pay requirement and it's anticipated that this policy will spread throughout the country.

Investment in technology

The company that wants/needs to stay competitive today is having to make a large investment in technology, which is necessary to offer more services to the demanding customers (i.e.; integrated guarding). The initial cost of this investment is high, thus driving down the profits for a period until the additional services can be offered to the customer.

MARGINS AND EBITDA

Margins and EBITDA



Note:

- **The International World Leaders with significant revenues coming from the "emerging markets" report company wide margins in the 18% - 20% range; underscoring the continuing competitiveness of the U.S. manned guarding market.**
- **See next page for definition of terms**

MARGINS AND EBITDA

Margins (profit at the customer site)

All direct cost as a percentage of revenue. Direct costs are all costs assigned to the site, such as: compensation for the billable officers, wages for the dedicated non-billable supervisors (if any), uniforms, employer payroll taxes, workers compensation insurance, general liability insurance, employer portion of health benefits, cost of equipment dedicated to the site, union cost, cost for non-billable roving supervisors (not assigned to an account) if there are a lot of “cold start” sites, etc.

Branch Level Profit

The profit at site level less all the cost to operate the branch office (for companies with multiple branch offices).

EBITDA

Earnings Before Interest Taxes Depreciation and Amortization.

Small Companies

Revenues less than $10 million; owner manages the business and has customer relationships. Usually inefficient in back-office operation and pays more on a per-unit cost for insurance, uniforms, etc. In addition to the previously mentioned cost increases, gross margins are slipping due to the larger companies’ recent interest in the smaller accounts, which typically have higher margins. Adding to the margin erosion for the small company have been the pricing pressures from the customers.

Regional Companies

Revenues $10 - $100 million; owner less involved in customer relationships, operates multi-offices – usually volume is $5 - $10 million per office. These medium sized companies are also experiencing margin slippage due to the previously mentioned costs. Although the margins are decreasing, the EBITDA has remained relatively constant due to a lot of “belt tightening” at the administrative cost level.

The Branch Level profit can be much lower for regional companies with many small offices in areas with an insufficient volume to justify the branch office overhead. This is often found in companies that are expanding through entering new markets, or having to maintain a support office to service a large account with multiple locations.

National/International Companies

As indicated in several places in this white paper report, many of the national/international companies are now investing heavily in electronics and technology as a way to compete in the market place. The margins are not decreasing, but increasing, due to the move to have more volume in the higher margin security offerings.

MERGERS

TREND: 2017/2018 was another "moderate activity" period in terms of number of transactions for mergers and acquisitions in the traditional guarding and electronics security industry; not only here in the United States, but around the world, as well.

In fact, the past five years were "moderate activity" years, in terms of number of worldwide manned guarding, alarm monitoring, systems integration and armored car transactions (averaging about 90 per year), when compared to the robust acquisition activity for 2012 (113 transactions); which boasted an increase of worldwide transactions of 52% over the 2011 year and 74% over 2010.

The following are what we consider the most significant transactions for the 2017 year and 7 months ended July 31, 2018:

U.S. Manned Guarding Transactions

March 2017 **– *Constellis agrees to buy Centerra Group.*** Constellis agrees to buy Centerra Group for an undisclosed amount of money from an affiliate of Alvarez & Marsal Capital; who bought this Federal Government division of G4S back in 2014 and renamed the company – Centerra.

ALSO:

June 2017 **– *Constellis announces acquisition of AMK9***, based in West Point, Georgia, and a leader in K-9 security services, sales and training around the world.

August 2017 **– *Constellis has agreed to acquire Omniplex World Services Corp.***, a Virginia based company that investigates intelligence agencies, the Department of Homeland Security and other federal agencies.

November 2017 - ***SecurAmerica announces acquisition of ERMC***, Privately-held SecurAmerica, based in Atlanta, completes the purchase of ERMC, a Chattanooga, TN provider of janitorial, maintenance, security and landscaping services. It is estimated that ERMC's revenues were in the $100m range.

March 2018 - ***GardaWorld announces acquisition of United American Security***, LaSalle Capital sold United American Security to GardaWorld Security Corp for approximately $70m (as reported under Garda World's profile on page 39 of this white paper). UAS reported approximately $100m in revenues at the time of the sale.

Continued on Next Page

MERGER AND ACQUISITION ACTIVITY

U.S. Manned Guarding Transactions

July 2018 **–** ***Wendel: Allied Universal to acquire U.S. Security Associates*.**

Foreign Manned Guarding Transactions:

May 2017 – ***Apax Partners completed its sale of Garda World Security***
Garda World Security, headquartered in Montreal, Canada, is one of the world's largest privately-owned security and cash services. The buyers were Rhone Capital and Stephan Crétier (Founder, Chairman and Chief Executive Officer).

U.S. Electronic Security Transactions:

June 2018 - ***Securitas Completes Acquisition of Kratos Defense and Security Solutions*** Securitas Electronic Security completed its $70m acquisition of the public safety and security business from Kratos Defense and Security Solutions. As reported on page 59 of this white paper, this Kratos subsidiary reported revenues of $135m.

U.S. Armored Car Transactions:

May 2018 - ***Dunbar Armored selling to rival for $520m***, The Brink's Co. is acquiring its competitor, Dunbar Armored, Inc., a family-owned business in Baltimore County for 95 years, in a $520m all-cash deal. Dunbar reported revenues of approximately $390m and adjusted EBITDA of approximately $43m.

Public Offering Announcements:

July 2017 - ***Apollo announces its plans to take ADT public in late 2018***, which would be the largest private equity-backed initial public offering since hotel company Hilton Worldwide Holdings, Inc. went public with a $19.7 billion valuation in 2013 (according to Reuters).

January 2018 - ***Apollo takes ADT public in early 2018***

PRIVATE EQUITY GROUPS INVESTING IN THE CONTRACT SECURITY INDUSTRY

TREND: Private Equity Groups that previously were not invested in the contract security sector are now viewing this segment of the security industry as an attractive placement for their managed funds.

Private Equity Groups (PEG's) are firms made up of executives with an attractive track record in running large companies; and experts in analyzing the financial data of the target companies the group is interested in buying. The PEG will have an attractive track record in finding, buying and managing (either passive or active) struggling or growing companies needing the financial resources to take the company to the next logical level. The investors in these firms are primarily very large pension funds, insurance companies, high net worth individuals, family partnerships, municipalities, the members of the Private Equity Group and sometimes the owner of the company they are buying.

According to the Private Equity Growth Capital Council, there are more than 3,300 private equity firms in the United States that own more than 11,000 businesses, which employ roughly 7.5 million people.

Collectively, the Private Equity Groups raised a very large amount of commitments during the years 2005 – 2007. Those commitments were put to work buying companies and many have recently been divested in accordance with the PEG's commitment to return the profits (usually after about 10 years of establishing the fund). Much of these profits, as well as new investments, have been redirected into new funds.

According to a New York Times article on November 30, 2015 (written by Lis Moyer) - "Adding investments in traditional funds and shadow capital together, the private equity market will attract a record $629 billion this year (2015). Investors have money to put back to work after being paid for earlier private equity investments and the increase also reflects a bit of a backlog in committed but not invested money. This "dry powder," as funds call it, is up 23 percent, to $1.3 trillion since the beginning of 2015 as private equity funds hold off on acquisitions but investor money keeps pouring in."

PRIVATE EQUITY GROUPS INVESTING IN THE CONTRACT SECURITY INDUSTRY

Traditionally, the PEG's interest in the security sector was mostly centered around the biometrics and electronic security businesses because these companies carried larger margins, with less liability, than the traditional manned guarding companies.

However, the PEG's that have invested in the manned guard security sector have played a very important role in the expansion of the industry. As mentioned earlier, Private Equity is sitting on a lot of cash needing to be invested. The PEG's don't mind taking risks and are committed to investing what's necessary to make sure the company they are invested in is successful – whether it be developing technology (which requires a large financial commitment), paying high multiples for well-run tuck in companies with characteristics consistent with their growth criteria, and paying salaries high enough to attract the seasoned executives capable of making all of this happen.

Collectively, the very few PEGs that have invested in the contract security industry over the past 10 years have bought over 200 privately held companies; providing the sellers the opportunity to receive a well-earned reward for their many years of hard work. The large public companies such as Securitas and G4S have been on the sidelines for acquisitions of traditional manned guarding companies for the past 5 - 8 years, so they have not been a buyer of choice. The privately held companies looking to make acquisitions have not been able to compete with the high prices the PEG's are paying. The privately held buyers are not sitting on a stash of idle cash, therefore have to rely on bank loans to finance the acquisition. The banks are requiring the owners to collateralize the loan with the net worth of the buying company as well as the personal assets of the buyer, which the "would be" buyer does not want to do; and the sellers are not willing to take a long term note.

Also, in spite of the fact that many of the large targets were bought when Universal Protection (now Allied Universal) was on its buying spree; there are a lot of companies with revenues in excess of $100m still left and are prime targets to be bought. The challenge the PEG's will have is in finding these companies since many of the owners of these companies don't want to be targets for their competitors and are not on public lists.

There are indications that more large PEG's may now be looking at the Contract Security Industry. As of the writing of this white paper, there are several transactions in process with some of the large PEGs not previously in the manned guarding space. These transactions should be completed and ready to publically announce sometime in the last quarter of 2018. Also, in spite of the fact that many of the large targets were bought when Universal Protection (now Allied Universal) was on its buying spree; there are a lot of companies with revenues in excess of $100m still left and are prime targets to be bought. The challenge the PEG's will have is in finding these companies since many of the owners of these companies don't want to be targets for their competitors and are not on public lists.

PRIVATE EQUITY GROUPS INVESTING IN THE CONTRACT SECURITY INDUSTRY

There are many reasons the PEGs are starting to invest in the contract security industry:

- The 2015 auction Credit Suisse ran for the sale of AlliedBarton. Blackstone got roughly 12 times adjusted EBITDA – a very respectful price for a service company in today's market. An article in the *Forbes* magazine right before Blackstone put AlliedBarton on the block, quoted an executive at Blackstone as saying that Blackstone would enjoy a half a billion dollar profit for its 6 years of holding this investment - a very respectful return and one any of the PEG's would be happy to receive for its investors.

- The increase in the crime and terrorists rates have indicated a real growth in the security industry for the next few years. The public police force, in many instances, is maxed out on its ability to handle the uptick in this activity and does not have the expertise and equipment to handle the special situations inherent in this type of protection. The large industry leaders have been investing heavily in the technology necessary to handle this type of security.

- The recent track record of the industry leaders, all with increased revenues (outpacing the growth of the general economy) and margins, point to a lucrative investment model for investors looking for better returns than today's low rate options have to offer.

PRIVATE EQUITY GROUPS INVESTING IN THE CONTRACT SECURITY INDUSTRY

	Company	PE Partner	Date Invested	Overview
(1)	U.S. Security Associates	Goldman Sachs	July 2011	Goldman Sachs has a significant investment in U.S. Security Associates - approximately $1.5bn in annual revenue. Goldman Sachs purchased WindPoint Partners' ownership on July 29, 2011.
	SOS	ZS Fund L.P.	December 2012	ZS Fund entered the contract security industry in December 2012 with a major investment in SOS Security. Since then, SOS has made over a dozen tuck-in acquisitions, as well as enjoyed attractive organic growth and is billing around $400m per year.
	Security Solutions of America	Capitala	June 2015	Capitala has a significant investment in Security Solutions of America - a $40m multi-service security provider.
(1)	Allied Universal Security Services	Wendel; Warburg Pincus; Partners Group	August 2016	All three of the Private Equity Groups are co-investors and own collectively about 87% of Allied Universal - billing around $5.5bn per year.
	constellis	Apollo	September 2016	Apollo, the lead investor in the transaction, teamed with certain key executives in this management lead buy-out. Revenues are not publically disclosed.
	UAS	Rhône	March 2018	GardaWorld, owned in the majority by Rhone Capital, bought UAS in March of 2018. The revenues of UAS are in the $100m range.

(1) Press release dated July 16, 2018 indicated that Allied Universal intends to purchase U.S. Security Associates in a $1b transaction - subject to customary approvals.

THE M&A OUTLOOK

As for the large public international security companies such as Securitas and G4S, there has not been much activity in buying traditional manned guarding companies from these mega companies in 2017 or 2018 to-date, anywhere in the world. They are enjoying continued and sustainable growth in revenue and profit through promoting their integrated guarding and cyber security success, which is enhancing their organic growth trend. They will continue to curtail their buying activities; unless opportunities arise in the non-traditional security sectors, such as large high-end systems integration companies or opportunities to leverage their integrated guarding efforts.

There is continued growth pressures from the contract security companies partnered with Private Equity Groups. The security companies owned by the PEGs are getting pressure to maintain at least 5% net growth (and some even more aggressive), and they have readily available funds that can make it happen. However, these companies have quit buying just to get more volume; rather they've become very selective. They are redirecting their acquisition efforts to companies that take them into new vertical and/or geographical markets - companies that don't require a lot of "fixing" in order to transition.

MULTIPLES

OVERVIEW OF LARGE CONTRACT SECURITY COMPANY TRANSACTIONS

The following summarizes the *large announced* sale transactions for the past 8 years of U.S. security companies offering primarily contract security officer (guarding) services. To view large transactions dating back to 1999 in our previous White Papers, please visit the Publications Archive on our website.

						Price as Multiple of	
	Company Sold	Buyer	Revenue	EBITDA	Price	Revenue	EBITDA
2010	Paragon Systems	Pinkerton Government Services	$140M	N/A	$34.5M	25%	N/A
2011	Security Consultants Group	Paragon Systems	$106M	N/A	$22M	21%	N/A
	U.S. Security Associates	Goldman Sachs	$765M	N/A	N/A	N/A	N/A
2012	(1) Andrews International	U.S. Security Associates	$350M	N/A	N/A	N/A	N/A
2013	(2) IPC International	Universal Protection Service	$130M	N/A	$24M	18%	N/A
2014	G4S Government Solutions	A&M	$500M	N/A	$130M	26%	N/A
2015	Valor; Brantley Security Services	Universal Protection Service	$130M	N/A	N/A	N/A	N/A
	AlliedBarton Security Services	Wendel	$2.2B	$150M	$1.67B	80%	11.67x
	Guardsmark	Universal Protection Service	$500M	N/A	N/A	N/A	N/A
	ACSS American Commercial Security Services	Universal Protection Service	$400M	N/A	$131M	33%	N/A
2016	(1) AlliedBarton Security Services; Universal Protection Service	Warburg Pincus; Wendel; Partners Group	$4.5B	$440M	N/A	N/A	N/A
	Constellis	Apollo	N/A	N/A	N/A	N/A	N/A
2018	UAS	GardaWorld	$100M	N/A	$70.7M	71%	N/A

N/A = Not Announced (See Foot Notes on Next Page)

OVERVIEW OF LARGE CONTRACT SECURITY COMPANY TRANSACTIONS

Foot Notes to Page 73

1) These transactions were announced as a merger. The EBITDA figure for Allied Universal, post merger, ($440m) was estimated based on anticipated proforma synergies.

2) IPC was sold out of Chapter 7 Bankruptcy. Universal purchased the accounts and goodwill; and assumed certain contingent liabilities.

SELLING PRICES FOR LARGE CONTRACT SECURITY COMPANIES

TREND: The selling multiples for large manned guarding companies acquired over the past few years have been at an all-time high, as evidenced by the almost 12 times EBITDA paid for AlliedBarton (by Wendel) and the approximately 11 times EBITDA Allied Universal will be paying for U.S. Security Associates when it closes. Although the number of large transactions were on the decline for the 2017/2018 reporting period of this white paper, the 4th quarter of 2018 should show increased activity amongst the Private Equity Groups completing transactions at higher multiples than previously attained.

Most of the large transactions announced over the past 15 years, indicated average purchase price values in the 8 – 9 times EBITDA range (excluding Universal Protection's purchase of IPC, which was bought out of Chapter 7 bankruptcy and was not an "enterprise value" purchase). However, the AlliedBarton/Wendel and proposed Allied Universal/U.S. Security Associates transactions exceeded these averages coming it at 12 and 11 times EBITDA, respectively.

In the case of Private Equity Groups buying a large contract security company as a way to enter the market, the multiples paid were at least as high as what the industry buyers were paying, even though the PEG'S return on investment in the short term was not as attractive as the industry buyers were enjoying. However, the PEG's had to be competitive in the bidding process for the initial buy. As the PEG's made future acquisitions through the flagship company, their returns became a lot more attractive, especially if the acquired company folded into the flagship company's operations – thereby through averaging the prices paid for the multiple purchases, the return on the initial purchase became a lot more attractive.

Will there be more large company acquisitions in the near future?

There are presently several transactions in process with large PEG's that should be announced in the 4th quarter of 2018. This may be the next wave of acquisition activity in the manned guarding industry in the U.S. and a way for the owners of the smaller manned guarding companies to make their exits.

As for the publically owned U.S. industry leaders (Securitas and G4S), they continue to stay on the sidelines for acquisitions of manned guarding companies. Instead, their acquisition activity will be in the systems integration and integrated guarding sectors. In fact, Securitas and G4S have been on the sidelines for acquisitions of traditional manned guarding companies in the U.S. for the past 5 years and don't intend to ramp up acquisition activities in this sector any time in the near future. Instead, these industry leaders will invest their money in more aggressive internal sales as a way to maintain their average 4% - 5% annual growth.

SELLING PRICES FOR SMALL CONTRACT SECURITY COMPANIES

TREND: The multiples, presently at an all-time high, may level off or decrease as the pro-active acquirers complete their national footprints and have to pay a higher interest rate for monies borrowed to make the acquisitions. Any new buyers, for the smaller companies, coming in the market (i.e., the buyers in the large transactions expected to be announced in the 4th quarter of 2018) will not pay multiples for these smaller tuck-ins higher than what is now being paid, but may match the current multiples in order to get the attention of the quality targets.

The "enterprise" prices being paid for the smaller companies over the past few years, to include the normalized working capital necessary to carry the volume of business, has been approximately six times the buyers' proforma post transition cash flow.

Although this multiple has increased significantly over the past five years, sellers aren't necessarily receiving a higher price for their company.

As the revenue and/or gross margins of many of the small companies have dropped in the recent past, the selling price has remained steady or decreased since the higher multiple is applied to a lesser profit**.** As previously stated, the buyers are buying profit, not gross revenue.

Why buyers were paying higher multiples

Since the LIBOR rate, the rate world banks charge their most credit worthy customers to borrow money, had been declining recently – approaching zero at one time – the large Private Equity Groups (the most active buyers for contract security companies today) were paying less to borrow money and were passing this savings on to the seller in order to entice the "fence straddlers" to come to the closing table. However, the LIBOR rate is headed, back up, which could negatively affect the selling multiples.

Also, the Private Equity Group owners were demanding acquisition growth from their manned guarding portfolio companies, which required higher than market multiples in order to entice the owners to sell.

SELLING PRICES FOR SMALL CONTRACT SECURITY COMPANIES

Will the multiples of cash flow keep getting higher or is there a "correction" on the horizon?

It is unlikely the multiples will increase. As mentioned above, the LIBOR rate, which effects the offering prices for companies, is about as low as it can get; and it's already showing signs of increasing, which would negatively affect the selling multiples. Also, the present multiple level is very close to reaching the buyer's "build vs. buy" model threshold, which means rather than a buyer paying a higher than normal multiple to purchase a company, a robust advertising/marketing campaign to obtain new customers organically may be a more compelling alternative. Also, in the past, many of the active acquirers were needing to make acquisitions in order to get into new geographical markets. The traditional active acquirers have now developed an attractive national footprint. They are in all the major markets and can service national accounts with very little, if any, need to subcontract the business to a smaller company, or acquire a company just to get into the market. They will still make smaller acquisitions, but the selling company now has to be strategic to the buyer's growth criteria and has to meet more stringent due diligence criteria.

FACTORS DRIVING OWNERS TO SELL IN TODAY'S MARKET

TREND: The results of a recent survey conducted by our firm indicated continuing higher operating costs suppressing gross margins. The medium size and large companies are able to adapt by getting more efficient, thereby reducing overhead costs below the gross margin line. Smaller companies do not have the organizational structure or money to invest in technology to reduce overhead cost, thus exploring the possibility of selling to their larger competitors.

Below are some of the factors driving the owners to sell in today's market:

- **Increase in the Federal and state mandated minimum wage** – many states have already enacted increases in the minimum wage to upwards of $15 per hour phased in over the next several years. Owners of the small companies are concerned that this increase cannot be fully passed on to the customer, which results in higher direct cost and more erosion to the margins – the profit line the buyers are using as a basis to compute the prices they pay for an acquisition. See "Challenges for Owners of Contract Security Companies" on page 84 for a detailed discussion on the increase in minimum wage.

- **The cost of implementing the Affordable Care Act** - Although many companies today have now made a temporary "fix" in their concerns over the ACA, supported by low cost plans and the elimination of the individual mandate, it's still unknown what the exact impact this bill will have on the contract security industry in the long run. Most owners think it will definitely mean less profits and loss of customers or billable hours. While owners had to comply with the ACA in 2014, its real impact on the company and industry as a whole (3 years later) is still very much uncertain; which is driving some owners to put their company on the market now.

FACTORS DRIVING OWNERS TO SELL IN TODAY'S MARKET

Below are some of the factors driving the owners to sell in today's market:

- **Not being able or willing to keep up with the changes needed to stay competitive in today's market.** As we mentioned in the section on margins, the margin at the site level is dropping for all but the largest companies. The companies that can (i.e.; the large and medium -sized companies) are compensating by getting more efficient below the site level line. They are reducing clerical labor and non-billable overtime percentages by investing in technology that enables them to run the company with less people and at the same time be more efficient. However, the technology costs money and many owners today, especially those getting close to retirement age, aren't willing or financial able to make the investment that doesn't give an immediate return. Also, the training, tax, and licensing laws are getting much more complicated and in some cases have required an investment in outside consultants, which is another new expense; not to mention the expense that will be associated with complying with the Affordable Care Act.

- **Small to medium sized companies are losing business to the national account providers** - This trend has been going on for several years and, according to the owners of many of these companies that took part in our recent survey, the situation is getting worse. The large, well-financed, companies are now going after the smaller customers that tend to have better margins. Previously, these customers were too small to be a target for these large security providers. Note in the "Industry Leaders" section of this White Paper that the organic revenues of the "Leaders" increased around 5%, while the total market grew at an unimpressive 4%. This means that some of the increase in revenue for the larger companies is coming from their smaller competitors. This loss of business is causing the owners of the smaller companies to seriously think about selling before more business is lost to the large national companies.

- **Possible lower valuations later** - Many owners feel that the challenges of the future will mean more companies will be put on the market, thereby causing a decrease in the valuations for a future sale.

- **Unionization** – [See page 85 under "Challenges for Owners of Contract Security Companies"]

- **Original owners reaching retirement age** - Many contract security companies today were started 30 – 40 years ago, when the trend to out-source security was getting started in a big way. These owners are now reaching retirement age and are looking to sell their business.

WHY OWNERS ARE NOT RUSHING TO PUT THE COMPANY ON THE MARKET

- **Decline in alternative investment opportunities** — Before Certificates of Deposit and bond rates dropped dramatically, many sellers of contract security companies made more money from the funds they invested from the sale of the company than they made while owning and operating it. However, now that these safe haven investment returns are so low, the profits the owners are making from their company cannot be replaced by returns on the after tax monies invested from the sale of the business.

- **Many companies have already lost value** — Many of the contract security companies have, in fact, felt the effects of this very competitive market and have lost value – not because the selling multiples have gone down, but because the company has lost valuable and profitable revenue. The owners do not want to have to settle for a reduced price because they still have high expectations, so they are hoping their company will get large and more profitable again; at which time they will think seriously about selling.

- **Some companies are enjoying increased revenue and profits** — The results of a recent survey conducted by our firm indicated that a small segment of the contract security industry is actually growing in revenue and profits. These are the companies owned by executives who are keeping up with the technological advances in the industry and investing heavily in marketing efforts.

- **Owners consider the industry recession proof** — contract security company owners see continuing activity in the market, so they are taking a "wait and see" approach to selling, thinking that buyers will still be there when they get ready to sell.

OUTLOOK

CHALLENGES FOR OWNERS OF CONTRACT SECURITY COMPANIES

TREND: Most of the "Challenges" mentioned in our previous White Paper remain today; and some are even more critical.

Looking back over the past 8 years or so, there have been several Challenges that affected the owners of contract security companies that eventually went through periods of corrections. There were the high unemployment rates that caused the owners of contract security companies to have to pay high unemployment taxes - a large hit to the gross margin. Then the unemployment rates started a downward spiral under the present administration making an improvement on the unemployment tax rates; but with low unemployment, came the high non-billable overtime rates. Three years ago, the major concern was what would happen to the owners of companies when the Affordable Care Act took effect. This concern gradually subsided somewhat as the owners found ways to minimize the effect of the act. Today, we see the following as the challenges of owners of contract security companies, some more costly than others, but nonetheless still a challenge in running a profitable company.

Low Unemployment - Causing High Non-billable Overtime Rates

Based on a May 2018 CNN article, the nationwide unemployment rate is presently at around 3.8%. The only other time the unemployment was this low was in April 2000 - 18 years ago. Several economists predict the rate will fall to 3.4% this year, the lowest since 1969.

With low employment comes recruiting challenges. Qualified security officers are difficult to find, since many of the prospects are finding better paid positions at the retail/manufacturing and hospitality sectors, which are now offering higher pay rates and more attractive benefits than most contract security companies can afford, given their already low gross profits. The windfall tax decrease from the Trump administration scheduled to take effect in 2018 caused many large companies to pass some of the savings on to the employees in the form of higher wages, another factor fueling the gap in the pay scale between service companies and the larger retail/manufacturing conglomerates. Many respondents to our survey indicated that their non-billable overtime rates have increased dramatically to the point of lowering the gross profit 1 - 2 percentage points (or higher in some cases). A few of the companies indicated that they were able to get their customers to agree to a slight billing rate increase to offset some of this otherwise non-billable cost. The respondents indicated that the customers were understanding in their challenge to recruit qualified security personnel in this low unemployment market. The customers did not want to lose their favored security officer to the higher paying industries. In fact, the customers were experiencing recruiting challenges within their own organization.

CHALLENGES FOR OWNERS OF CONTRACT SECURITY COMPANIES

Increase in Minimum Wage

Several states have announced a "proposed" or already "approved" increase in the minimum wage. A December 30, 2016 *Wall Street Journal* article indicated that there are now 19 states that have implemented a raise in the minimum wage – some gradually increasing up to as much as $15 per hour; others getting there at a much faster pace. This seems to be about the same number as of the writing of this White Paper.

According to the companies in our files and other industry statistics, the average pay rates for security officers on post assignment is in the $12 - $13 per hour range. Most contract security companies pay about $3 per hour higher than the local minimum wage in order to attract qualified personnel. A company with a present pay rate of $13 per hour that is forced to meet the $15 per hour law would have to increase the billing rate to the customer by over 20%; and even more if the company wanted or needed to maintain the $3 per hour distance from the lawful minimum wage.

The lingering concern amongst the owners of manned guarding companies is that the higher bill rate necessary to cover the increase in the security officers' wages will drive the customer to the low rate competitors or reduce the manned coverage in favor of electronic security.

The Affordable Care Act

As mentioned in past White Papers, the ACA is and continues to be a great concern to owners of contract security companies, even though not as much today as it was three years ago when it was passed into law. The cost of the insurance premiums mandated by the ACA is still somewhat of a moving target and a big question mark in the minds of the owners of contract security companies. However, many have found ways to mitigate the original concerns through lower cost insurance offerings; the concern also has been mitigated by the fact that only a few of the security personnel have elected to sign-up for even the lowest cost insurance plan offered by the company - a result of the elimination of the "individual mandate" which was approved in late 2017. Employers are still pushing for an elimination of the "employers mandate" part of the Act, and whether or not this will every happen is till an ongoing discussion among the lawmakers.

Mandatory Paid Leave

Some states have already mandated paid sick days to all employees and the trend is growing. A June 22, 2015 "New York Times" article indicated that there's …. "New Momentum on Paid Leave, in Business and Politics". The article went on to say that …"Oregon this month became the fourth state to pass a bill requiring that companies give workers paid sick days to care for themselves or family members". The obvious concern to the owners of contract security companies is that this is just one of many new laws being passed that increases the cost of operating a business that probably will not be able to be passed along to the customer.

CHALLENGES FOR OWNERS OF CONTRACT SECURITY COMPANIES

Deeper Unionization of the Contract Security Industry

For some companies the wage rates and benefits mandated by unions are lower than what the company provides its non-union personnel. However, for the vast number of companies, unions increase operating cost, which in turn lower margins.

In June 2018, the Supreme Court handed down a decision to eliminate the requirement for public sector workers to pay union dues. Excerpts from a June 27, 2018 article in the *New York Times* stated this about the decision: "Most public-sector unions in more than 20 states with such laws are going to get smaller and poorer in the coming years. Though it's difficult to predict with precision, experts and union officials say they could lose 10% to 1/3rd of their members, or more, in the states effected, as conservative groups seek to persuade workers to drop out…" Later in the article a representative of the labor unions said that the unions were getting as aggressive as ever in cutting costs to offset the loss of some of the union dues; as well as ramping up its efforts to organize non-unionized workplaces and reach out to its existing members for more support.

As of the publishing of this White Paper, it's unclear how this decision may affect the labor intensive contract security industry (non-public sector workers), if at all.

Sales Taxes

Many municipalities are trying to pass legislation to tax services (not presently subject to sales tax) in an effort to make up for the diminishing tax based revenues. This sales tax is usually passed on to the customer contracting for the security, but it definitely impacts the customer's cost of security, which in turn puts pressure on the customer to ask for price concessions from the security service provider.

OPPORTUNITIES FOR OWNERS OF CONTRACT SECURITY COMPANIES

TREND: The large and small well-financed companies have many opportunities to grow and become more profitable in today's market, where the need for better security continues to increase.

Decrease in Federal Income Taxes

The tax legislation enacted in December of 2017 lowered the income tax rates from 35% to 21% beginning in 2018 for companies operating and taxed through traditional "C" corporations - a 14% decrease in the taxes paid on profits. It also lowered the taxes approximately 8% for the owners of businesses operating as a "pass through" entity. These two provisions made a lot more cash available to the corporations and/or owners that can be used to grow the company, pay down debt, make acquisitions or just increase the amounts the owners take out for personal use. In fact, as a result of the new tax legislation, Securitas stands to reduce its taxes about $15 million in 2018 and subsequent years, based on its projected taxable income.

Municipalities Continue the Trend of Outsourcing its Security Function

A look at the public bid list will reveal that more and more municipalities are looking for ways to contain cost as it's faced with having to raise rates to its customers; and the municipalities are doing it through outsourcing its security functions and in some cases, its police force. Not only is it outsourcing to reduce its cost, but also to get more effective security now being provided by the contract security companies that have invested heavily in technology – something the municipalities have been lax on doing over the past few years because of budget restraints.

Expansion of Private Airport Screeners

The recent move to privatize security screening at airports could create a large market not available to most contract security companies since the TSA was formed after the events of 9/11. In fact, this may be the source of the largest growth for the outsourced contract security industry.

A recent report by ABC News indicates that the TSA agents are failing miserably in carrying out their duties of protecting the traveling public. It reported that undercover agents in the Department of Homeland Security (DHS) successfully smuggled fake explosives and weapons through 67 of 70 checkpoints in a secret nationwide exercise. One of the solutions being considered [and probably the most viable] is to expand the Screening Partnership Program (SPP). Created in 2001, the SPP allows private airport screeners to operate under the oversight of the TSA. Private personnel check bags, screen passengers, and manage daily affairs while meeting the same standards of originally enacted by Congress after 9/11.

OPPORTUNITIES FOR OWNERS OF CONTRACT SECURITY COMPANIES

Increasing Crime Rates

There's been a growing number of mass murders in our schools, theatres and shopping malls; and growing concerns over airports, nuclear sites, subways, and sporting events – all having a chilling effect on our nation. All this points to a compelling reason to initiate or ramp up security at these type locations or other locations where large number of people are gathered. The public police forces are not equipped to handle the special security expertise required to secure some of these critical infrastructures; therefore the owners are looking to outsource these functions to companies with the experience and technology to handle this type security.

GLOSSARY

of

TERMS

Terms:

Alarm companies - Companies deriving the majority of its revenues from alarm installations and central station alarm monitoring

CAGR - Compound annual growth rate

Cyber Security - The protection of internet-connected systems, including hardware, software and data, from cyberattacks

EBIT - Earnings before interest and taxes

EBITDA - Earnings before interest, taxes, depreciation and amortization

EPS - Earnings per share

In-House Security - Term used to describe the use of a company's own employees to provide the security function vs. using a contract security company

Integrated Guarding - Term coined by the large security companies to describe the combination of on-site manned guarding with remote video and mobile vehicle patrol

Manned Guarding - Term used interchangeably with security guards and security officers

Margin - Gross income (income after production expenses – i.e., site level income) as a percent of total revenue.

Operating Margin - Earnings Before Interest and Taxes as a percentage of total revenue

Organic Growth - Growth exclusive of acquisitions

PBITA - Profit before interest, taxes and amortization

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