U.S. CONTRACT SECURITY MARKET

WHITE PAPER SEPTEMBER 2024

16th Edition

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(CONTINUED)

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THE U.S. DURING THE REPORTING PERIOD

Here is the overview of events in the U.S. from January 02, 2023, to September 06, 2024, as documented in this White Paper report. Various indexes serve as indicators of where both the country and the economy are heading, impacting the contract security market either directly or indirectly.

Increased Crime: During this period, the nation saw a considerable number of mass shootings, racially and politically motivated protests, riots, crimes against law enforcement, school shootings, and international incidents like the ongoing Russian/ Ukraine conflict, the Israel/Hamas war, and renewed threats from Iran

The Dow Jones Industrial Average: The index showed high volatility due to continuous interest rate hikes, heightening recession fears. It started at 34,200 at the beginning of the reporting period, reached 37,416 on January 05, 2024, was at 40,955 in mid-July, and closed at 40,975 by the end of the period. The market is currently at an all-time high, anticipating a federal rate cut in mid-September.

The Unemployment Rate: Initially around 8% in 2020 when the pandemic was declared, it decreased as the situation improved, reaching 3.6% at the start of the reporting period. Recently, it has risen slightly above 4% due to waning confidence in the economy's future direction.

The Inflation Rate: Averaging 8% during the height of the pandemic in 2022, inflation dropped to around 4% as the Federal Reserve increased interest rates. It now stands at approximately 3%, moving in the right direction but still short of the 2% target for optimal economic health.

The Federal Funds Rate: This rate influences the cost of borrowing money, making goods and services more expensive, which can also negatively impact company valuations. From June 2020 through January 2022, the rate remained below 1% but climbed significantly through a series of hikes to counter rising inflation. As we go to press with this White Paper report, the rate is 5.25%-5.50%. Economists expect a slight rate reduction in the upcoming mid-September Federal budget meeting to mitigate recession risks.

As noted in previous White Papers, the contract security industry tends to be recession resistant. Fitch Ratings supported this view, stating that recessions might even decrease costs by reducing wages, overtime, and turnover pressures due to higher unemployment. This aligns with feedback from contract security company owners surveyed for this report.

ABOUT THIS 16TH EDITION

This annual White Paper marks our 16th year of reporting on the status and direction of the U.S. Contract Security Market. 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. Some information will be duplicated if it applies to multiple topics.

Our Qualifications to Publish This White Paper on the U.S. Contract Security Market

- We have managed over 300 sell-side engagements for owners of privately-held companies located in 8 countries having revenue from $2 million to over $250 million.
- We have consulted with Private Equity Groups in their bids for companies with revenues over $2 billion.

Primary Sources of Information for this Report

- Our proprietary, and confidential files on over 3,000 manned guarding companies operating primarily in the North American market.
- Publications on matters relating to manned guarding and electronic security.
- Global news releases
- Federal government reports
- Survey of owners of companies representing approximately half of the total market (below the six World Leaders) in terms of annual revenues. The results of the survey are presented throughout this report focusing on:
    - ◊ Movement toward manned guarding/technology offerings
    - ◊ Revenue Trends — Source of growth or shrinkage
    - ◊ Key challenges and opportunities awaiting the industry
    - ◊ Projected increases in future operating expenses
    - ◊ Analysis of gross profit margin
    - ◊ Trends and percentages of non-billable overtime premium pay
    - ◊ Volume of armed work

The Market - Revenues and Number of Employees (Pages 51 — 60)

This 2024 reporting year pegs the North American contract security market at approximately $37.8 billion, based on the **run revenue rate** from the latest interim reports for the World Leaders, as well as the interviews with the owners of privately held companies. This represents an increase of $1.8 billion over last year's figure. A significant portion of the increase comes from higher billing rates for existing customers. Revenues from the U.S. market are about $34.5 billion, considering Canada and Mexico traditionally represent approximately 10% of the North American market. Additionally, when the $4.3 billion electronic security and systems integration revenues are considered, the manned guarding portion of the U.S. contract security market is around $30.2 billion - an increase of $1.7 billion over last year's figures. We estimate the number of contract security companies operating in the contract security market in the U.S. as 8,000 - no change from recent previous year's reports. The combined revenues of the top 8 companies are approximately $24.4 billion - representing almost 70% of the total U.S. contract security market.

Since most of the revenue growth comes from increases in billing rates instead of billable hours, we estimate only a 2% increase in the total employed in the U.S. contract security market - bringing the total employed to 870,000.

Margins (Pages 61 — 65)

Gross Profit Margins:

A period of transition started in early 2022 and lasted throughout the period covered by this White Paper report where the companies, small and large, were implementing billing rate increases to restore their margins to pre-pandemic levels. Some reported an increase in margins higher than what it was pre-pandemic due to aggressive billing rate increases and some reported raising their margins through a combination of higher billing rates and investments in higher margin technology offerings – although the latter pertained mostly to the larger companies that could afford the large investment in technology.

Considering the above improvements, the gross profit margins for the smaller companies are now averaging about 16%, the regional companies about 17% and the national/international companies over 18% - with Allied Universal coming in at around 19%, Securitas 22% and Prosegur over 23%. The latter high margins attributable to a large investment in the higher margin technology offerings.

EBITDA Margins:

The EBITDA margins are not consistent between the size categories but are a function of how efficiently the companies structure their branches. For instance, the average EBITDA is around 7% - 8%, but some companies that are able to service a large volume of business with a limited number of branch offices reported an EBITDA in the 12% or higher range.

Mergers (Pages 66 — 69)

During the reporting period, there were a large number of transactions completed in the systems integration, alarm, and artificial intelligence sectors, but an uneventful period for large transactions in the "pure play" manned guarding sector.

We followed forty, mostly unannounced, small transactions during the reporting period initiated and managed by our firm, other brokers, or direct by the principals. However, the only transaction of a "pure play" manned guarding company with revenues exceeding $100 million was announced as a "merger" between Trilantic (a large private equity group) and Sunstates Security having revenues of approximately $300 million.

Multiples (Pages 70 — 73)

There are qualified buyers – mostly ***new*** Private Equity Groups looking for a "flagship company" – quoting offers in the 8 – 10 X EBITDA range, or higher, despite the present high interest rates. The offers for the smaller companies – usually a tuck-in – for the much larger company buyer - is much lower running in the 5 – 7 X EBITDA range.

However, although the prices are usually expressed in terms of multiples of EBITDA, it's the computation of the EBITDA that actually determines the selling price to the seller. For instance, most buyers will allow generous redundant cost add backs in computing the EBITDA target, often resulting in an attractive selling price for a company that's actually losing money on the seller's financials.

BY THE NUMBERS

OUTSOURCED AND IN-HOUSE
SECURITY MARKET

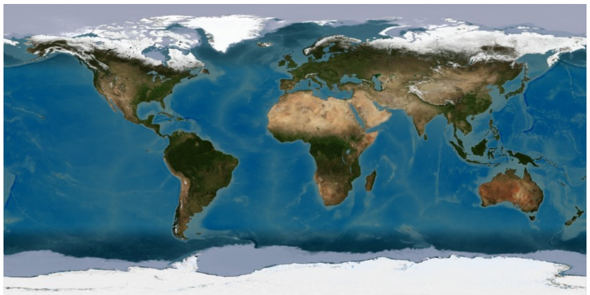
$49.5bn

OUTSOURCED CONTRACT
SECURITY MARKET

$34.5bn

$22.5bn

REVENUES FOR THE 6
MARKET LEADERS



$8.1bn

REVENUES FOR THE 3 MAJOR
FOREIGN-OWNED INDUSTRY LEADERS

OUTSOURCED SECURITY OFFICERS	COMPANIES IN THE UNITED STATES	(1) INORGANIC GROWTH FOR THE U.S. MARKET	(2) ORGANIC GROWTH FOR THE U.S. MARKET
870k	8k	nil	5%

(1) From acquisitions of security companies previously counted in a different sector of the security market
(2) Primarily from billing rate increases

MARKET

MARKET

Our 2013 edition of the white paper was labeled "White Paper on the Security Guard Industry" – an appropriate title over 12 years ago. However soon after that, the large companies such as Securitas and G4S (now a part of Allied Universal) started a paradigm shift where they would expand their menu of services to include higher-margin technology offerings in anticipation of the eventual rising cost of labor and benefits.

Today, the "Contract Security Market", with most of its revenue still coming from standing security officer services, has expanded its offerings to include even more technology as well as nontraditional "manned guarding" services. According to the public reports and interviews with the owners of companies in the U.S. market, we estimate $4.3 billion of the $34.5 billion U.S. contract security market is coming from security offerings not requiring a large labor component – such as various forms of technology. There has also been an expansion of services outside the traditional manned guarding offerings. Below is a sample of the services we saw when we visited the websites of various large and small companies in the U.S. market.:

- Traditional on-site standing security officers (often enhanced by a roving vehicle patrol function)
- Remote video monitoring
- Robots
- Drones
- K-9 security
- Systems integration - often with artificial intelligence platforms
- Roving vehicle patrol
- Traditional concierge services
- Executive protection
- Investigation services
- Cash-In-Transit (armored car services) - although only to a limited extent, if any, provided by a traditional manned guarding company.
- Cyber security - although offered on a limited basis by the traditional contract security companies.
- Janitorial services
- Temporary staffing
- Off-Duty Officers
- Closed community security (mobile patrol)
- School Resource Officers (SRO's)
- Supplementing public police forces

MARKET

Highlighting the World Leaders (and then there were SIX)

In this 16th edition of our White Paper, we've added Paladin Group and Inter-Con Security alongside Allied Universal, Securitas, Prosegur, and Garda World. These companies each generate over $1 billion in revenue primarily from manned guarding services globally, with most or their revenues coming from the U.S. market – the largest security market in the world - except for Prosegur and Paladin.

These companies have a combined footprint in over two hundred countries and 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 the public.

As indicated in the section on the World Leaders, each company is expanding its menu of services to incorporate the use of technology. They have been investing heavily 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 company competitors - ones without the resources for the large investment in technology and perceived as a provider of commoditized, low-margin services.

Important Note to Reader

The information on the six leaders presented on pages 12 to 50 was gathered from market sources and primarily the annual reports (in the case of Securitas, Prosegur, and Garda World). 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 its performance, especially in conjunction with the footnotes accompanying the information being presented.

Also, in order to make the charts more user friendly to our U.S. readers, we have eliminated some charts presented in our previous White Papers and have converted the currency of the foreign companies into US dollars using the average exchange rates for the years shown.

SIX WORLD LEADERS

WORLD LEADERS

Company logo	Country Headquarters	Local Currency	footnote (2) in U.S. $	footnote (1) Approximate U.S. Revenue	
Allied Universal	United States	$20.6 bn	$20.6 bn	$13.5 bn	(5)
	Sweden	MSEK 157,249	14.9 bn	4.8 bn	
PROSEGUR	Spain	€4.3 bn	4.6 bn	0.5 bn	(3)
GARDAWORLD	Canada	CN$5.9 bn	4.4 bn	2.5 bn	(4)
Paladin Security	Canada	CN$1.6 bn	1.2 bn	0.3 bn	(5)
IC INTER-CON SECURITY	United States	$1.1 bn	1.1 bn	0.9 bn	(5)

1. All revenues are for the 2023 year, except: GardaWorld which ended its year 1.31.24. Inter-Con is reporting its run rate revenue.

2. Local currency to U.S. dollar conversion rates (based on average rates for the 2023 year):

MSEK	=	Million Swedish Krona	1 SEK = $0.097
€	=	Euro	€1.00 = $1.08
CN	=	Canadian Dollar	CN$1 = $0.7410

3. Prosegur entered the U.S. market in early 2019 and presently has approximately $500 M in revenue from U.S. operations.

4. Includes approximately $1.3 bn in cash-in-transit revenue.

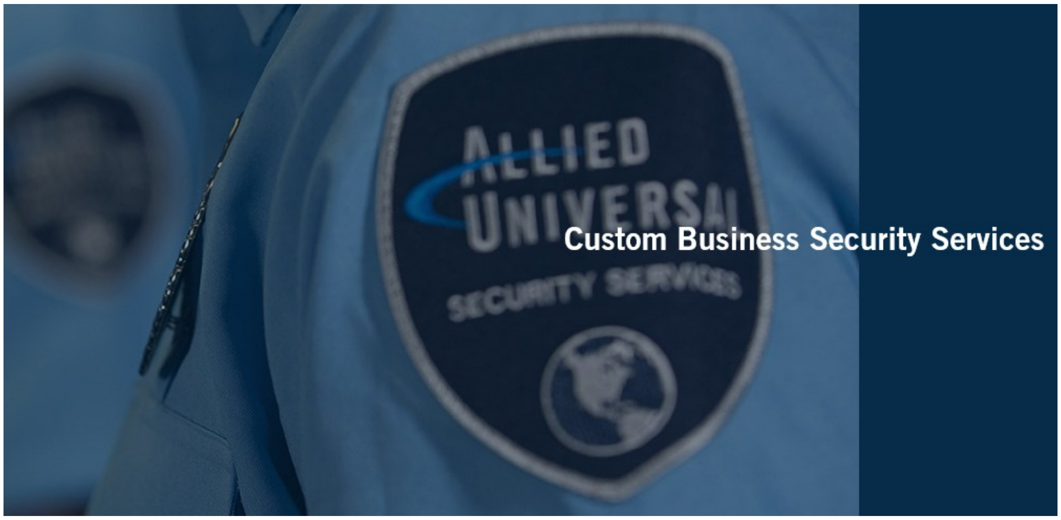
5. Amounts from news releases or provided by management, since financials are not published as public information.

See Page 11 for “Important Note to Reader”

OVERVIEW OF WORLD LEADERS

ALLIED UNIVERSAL®

There for you.



Key Performance Indicators

Worldwide Revenues

Over $21 billion (1)

Employees

Approximately 800,000

Speaking 45 languages

Countries

Over 100

Customer Retention Rate

Over 95%

Revenues from Technology Offerings

Approximately 10%

High-Profile Customers

More than 400 of the Fortune 500 Companies

(1) Run rate as of June 30, 2024

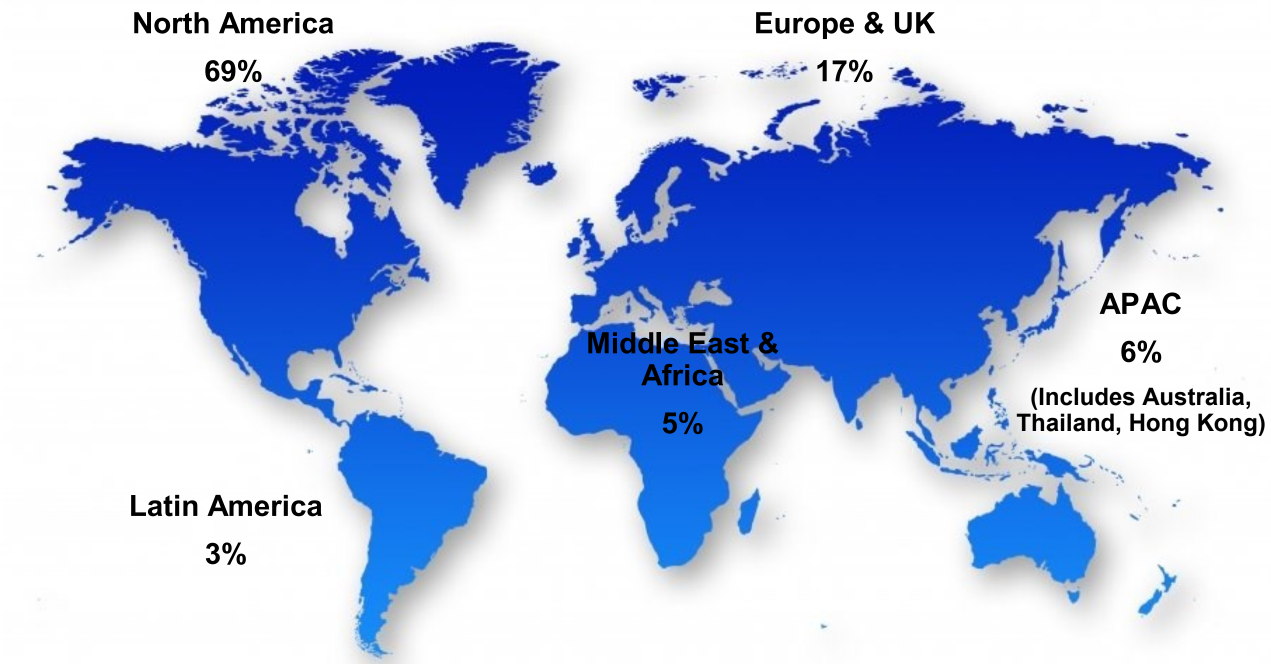
See Page 11 for "Important Note to Reader"

Source: Allied Universal management and news releases

WORLD LEADERS

Footprint

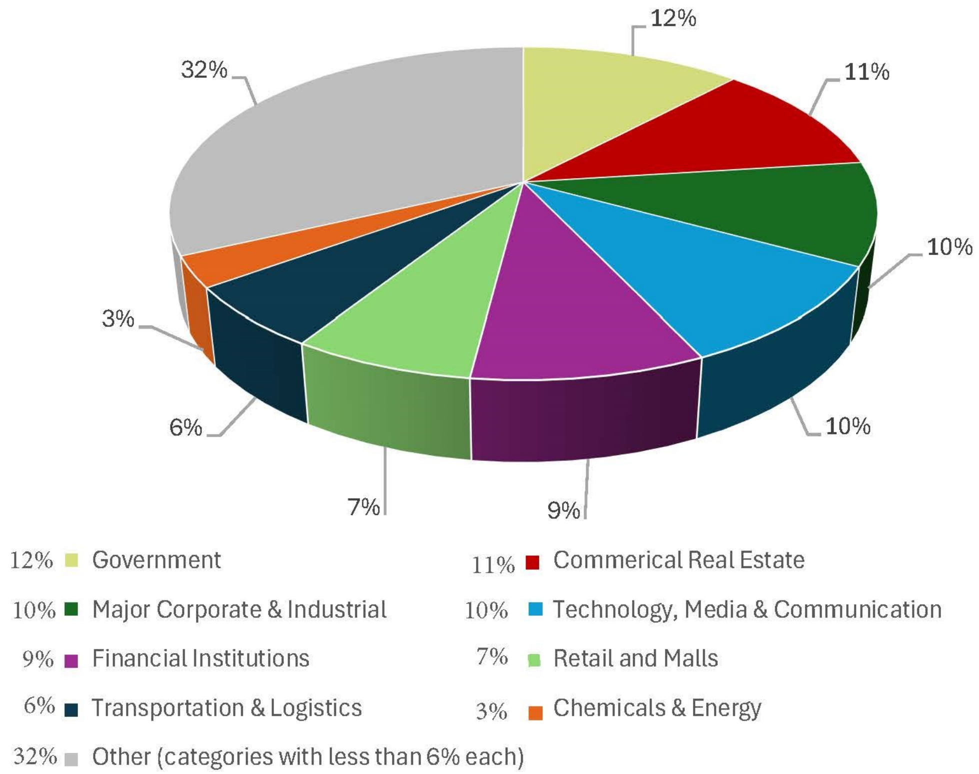
Operating under the Allied Universal brand in North America and G4S in all other areas.



See Page 11 for "Important Note to Reader"
Source: Allied Universal Management

WORLD LEADERS

Revenue by Customer Types



Expanding Vertical markets:

- K-9 Security (largest in the world with over 3,500 canines deployed every day)
- Enhanced Protection Services:
  - Firearm & Explosive Detection Canine
  - Risk & Consulting
  - Executive Protection
  - Active Law Enforcement
- Technology Services

See Page 11 for "Important Note to Reader"
Source: Website for Allied Universal and news releases

Other Facts About Allied Universal

Revenue and Gross Margin History

	2019	2020	2021 (1)	2022	2023	Run Rate
Revenue	$7.5	$8.5	$16.4	$19.4	$20.6	$21.0
Gross Margin	16.9%	18.7%	17.3%	16.9%	17.0%	18.0% est.

High gross margin despite 12% of revenue coming from low margin Government contracts

(1) **Includes G4S revenues from April 6, 2021**

Ownership:

90% Warburg Pincus, Partners Group, **Private Equity Partners**, J. Safra Sarasin, CDPQ

10% Allied Universal Management and approx. 3,000 Employees

See Page 11 for “Important Note to Reader”

Source: Allied Universal ‘s news releases and management

Other Facts About Allied Universal

Allied Universal, a privately-held company, does not distribute its financials in the public domain. Therefore, we went to news releases to find out what they were reporting about Allied, its present and future. Below are excerpts from the two most informative select publications:

MergerMarket—June 28, 2024 [Interview with CEO, Steve Jones]

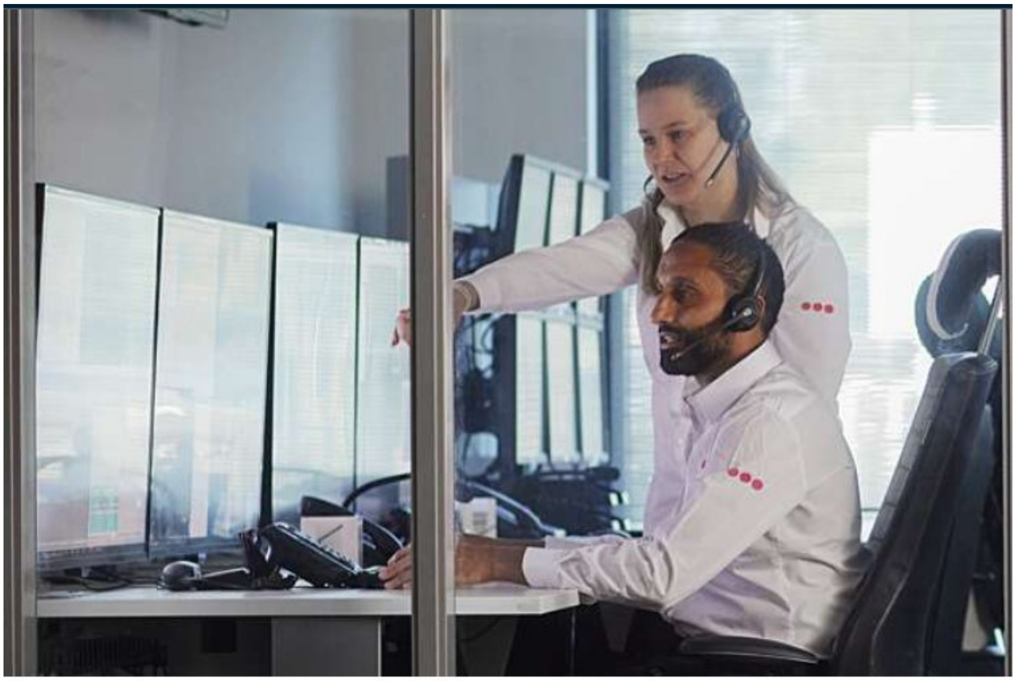
- ***"Allied Universal pursues M&A ahead of possible IPO consideration in 2026"***
- ***"Allied is flush with cash, generating revenue of more than USD 21bn continues to seek acquisitions worldwide, with additional deals likely to be announced this year. The company could easily fund deals valued up to USD 10bn".***
- ***"Allied completed 6 acquisition last year with combined revenue of approximately USD 150m. So far this year, it has purchased 3 companies with combined revenue of USD 15m".***
- ***"Multiples in the space range from 6X to 12X EBITDA, while average EBITDA margins are between 4% and 10%, with tech focused players on the higher end of both ranges".***
- ***"While the public markets have come 'roaring back', Allied is waiting to complete its 'artificial-intelligence transformation' around scheduling, recruiting and overall workforce management before considering a public debut".***

S&P Global—July 11, 2024

Allied reported first-quarter 2024 consolidated revenue growth of 5.4%, driven by organic growth of 4.6% and contribution from acquisitions. Its performance remains in line with our expectation for 4%-6% top-line growth this year despite customer retention dropping to 92% from the historical average of about 95%. We believe the company's disciplined approach to pricing and focus on driving margin improvement is leading to higher customer exits. While this could limit revenue growth over the next several quarters, profit margin expansion is likely. We expect Allied's S&P Global Ratings—adjusted EBITDA margin will expand modestly above 8% in 2024 from 7.8%.

See Page 11 for "Important Note to Reader"

WORLD LEADERS



Amounts are Approximates)

GLOBAL REVENUES (2023) - $14.9 BILLION

NORTH AMERICAN REVENUES (2023) - $ 5.9 BILLION
U.S. REVENUES (2023) - $ 4.8 BILLION

The following nine pages are excerpts from Securitas' annual and interim financial reports.

See Page 11 for "Important Note to Reader"

Key Performance Indicators

Revenues in U.S. Dollars $14.9 billion

2023 in short

157 249
Total sales, MSEK (133 237)

9%
Organic sales growth (7)

32%
Technology and solutions, share of total sales (28)

9%*
Technology and solutions real sales growth

6.5%
Operating margin (6.0)

3.80
Proposed dividend per share, SEK (3.45)

80%
Cash flow from operating income (71)

2.7
Net debt to EBITDA-ratio before items affecting comparability (3.3)

341 000
Employees (358 000)

44
Number of markets with operations (45)

90%
Client retention rate (89)

25%
Share of female managers at all levels (24)

+6%
Injury rate, increase (0)

* Real sales growth including STANLEY Security for the comparable period

See Page 11 for “Important Note to Reader”

Source: Page 4 of Securitas Annual and Sustainability Report 2023

WORLD LEADERS

Key Performance Indicators

Global Presence

SECURITAS NORTH AMERICA: (amounts in Billion US$)

- REVENUE $5.9bn
- 36% of Revenues From Technology
- Operating Margin 9%
- 99,000 Employees
- Approximately 80% of North American Revenue from U.S. Based Customers

See Page 11 for "Important Note to Reader"

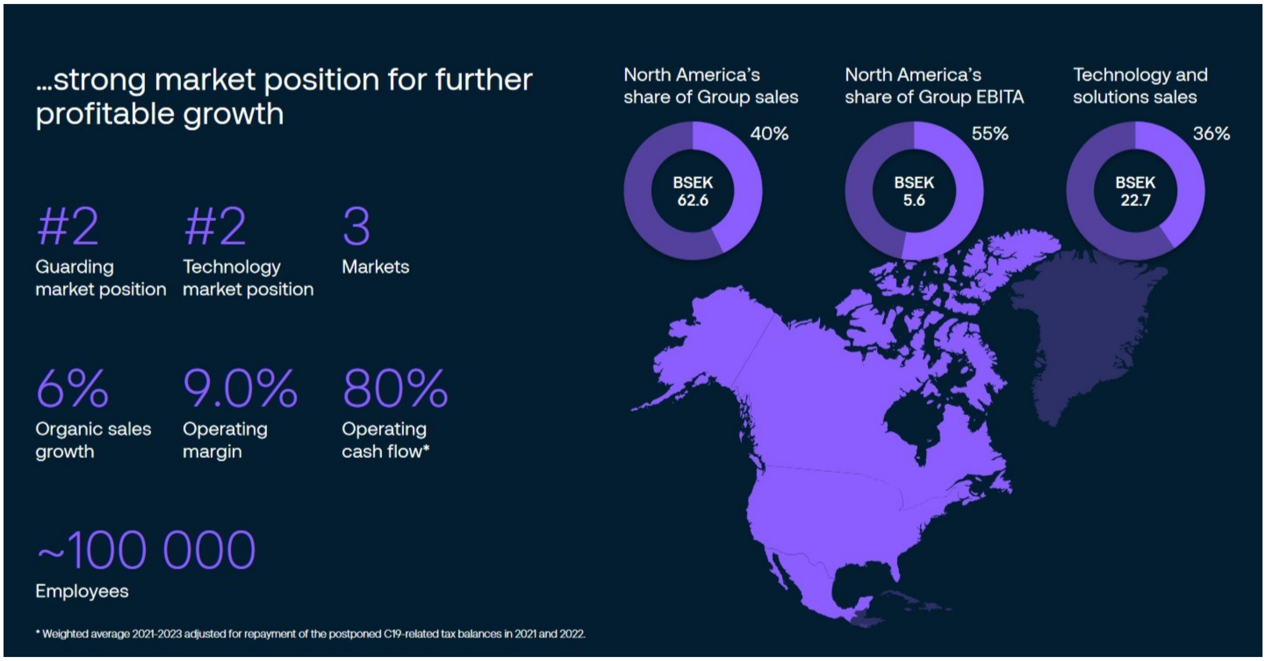
Source: Page 21 of Securitas Annual and Sustainability Report 2023

MSEK: Million Swedish Krona

WORLD LEADERS

Key Performance Indicators

Market Position for Further Profitable Growth
Revenues in U.S. Dollars $14.9 billion



North American Revenue—80% from U.S. customers

See Page 11 for "Important Note to Reader"

BSEK: Billion Swedish Krona

Source: Page 53 of Securitas Investor Days Presentation

Financial Performance

Financial Performance 2023 Compared to 2022

(in Billion USD)

GLOBAL

	2023	2022
Gross Revenue	14.9bn	13.0bn
Gross Profit	20.4%	19.6%
Organic Sales Growth	9.0%	7.0%
Operating Margin	6.5%	6.0%

(in Billion USD)

NORTH AMERICA

	2023	2022
Gross Revenue	5.9bn	5.1bn
Organic Sales Growth	6%	1.0%
Operating Margin	9%	8.3%

See Page 11 for “Important Note to Reader”

The above monetary amounts result from converting Securitas’ local currency, “Swedish krona” to US$.

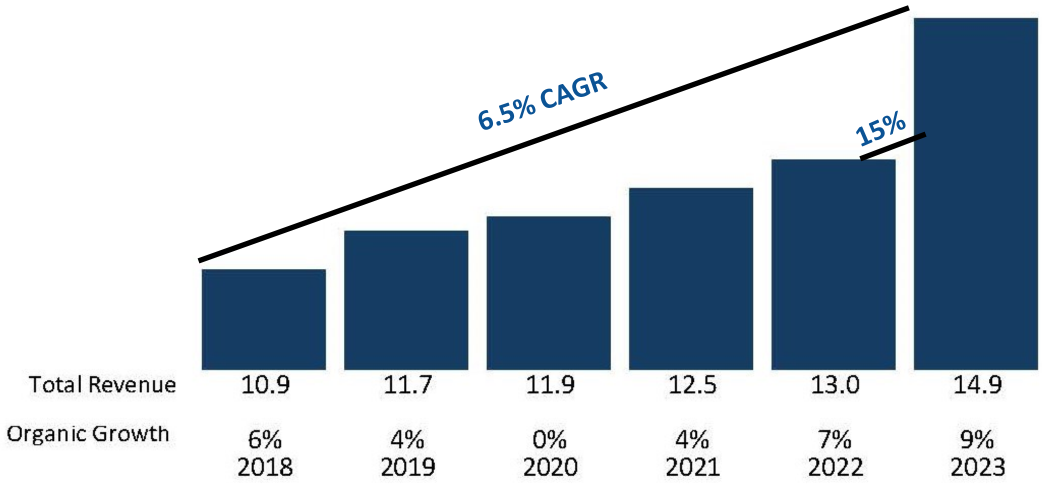
Source: Securitas Annual and Sustainability reports for the years shown

Financial Performance

GLOBAL REVENUE TREND

YEARS 2018 — 2023

(in Billion USD)



GROWTH—TOTAL REVENUE To include effect of acquisitions, organic growth and foreign exchange rate

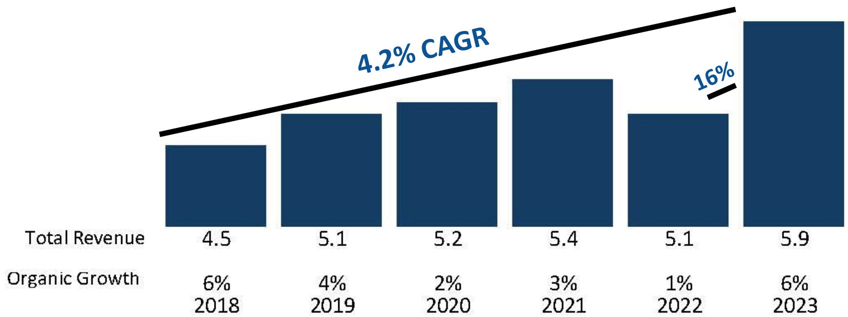
See Page 11 for "Important Note to Reader"

The above monetary amounts result from converting Securitas' local currency, "Swedish krona" to US$.

Source: Securitas Annual and Sustainability reports for the years shown

NORTH AMERICA REVENUE TREND
YEARS 2018— 2023
(in Billion USD)

Securitas North America provides protective services in the U.S., Canada and Mexico. The Operations in the U.S. are organized in three specialized units—Guarding, Technology and Pinkerton Corporate Risk Management. There is a unit for global and national clients, as well as specialized client segment unites, such as aviation, healthcare, manufacturing, and oil and gas.



USD amounts based on average exchange rates (from MSEK to USD) for the years shown

Approximate Breakdown of North America Revenue:

United States	80%
Canada	8%
Mexico	2%
Other Countries: Primarily Central America	10%
	100%

GROWTH

GROWTH—TOTAL REVENUE **To include effect of acquisitions, organic growth and foreign exchange rate**

ORGANIC GROWTH

Organic sales growth was 6 percent (1), driven b the Guarding business unit. Price increases, healthy portfolio new sales and a significant guarding contract renewed and expanded, as previously communicated, contributed to the development. By comparison, 2022 was hampered by the termination of two significant security contracts. Organic sales growth was also supported by the technology business unit primarily from improved installation sales. The client retention rates was 90 percent (86)

See Page 11 for “Important Note to Reader”

The above monetary amounts result from converting Securitas’ local currency, “Swedish krona” to US$.

Source: Securitas Annual and Sustainability reports for the years shown

WORLD LEADERS

Financial Performance

OPERATING MARGIN

YEAR	GLOBAL %	North America %
2023	6.5	9.0
2022	6.0	8.3
2021	5.6	7.5
2020	4.5	6.8
2019	5.2	6.2
2018	5.2	6.1

GLOBAL SECURITAS GROSS PROFIT TREND

YEAR	%
2023	20.4
2022	19.6
2021	18.6
2020	17.7
2019	17.4
2018	17.6

Margin Movement Globally — In 2023, the Group's operating margin was 6.5 percent (6.0), an improvement supported by all three business segments, and mainly driven by technology and solutions including the acquired STANLEY Security business in North America and Europe. Price increase in the Group were on par with wage cost increases for the full year.

Margin Movement in North America — In 2023, the operating margin was 9.0 percent (8.3). The operating margin improvement stemmed from the Technology business unit, driven by the acquired STANLEY Security business including cost synergies. The operating margin in Guarding was stable, supported by active portfolio management and leverage from the topline growth but burdened by cost of risk and medical expenses.

The Swedish krona exchange rate weakened again the US dollar, which had a positive impact on operating income in Swedish kronor. The real change was 28 percent (25) for the full year.

See Page 11 for "Important Note to Reader"
Source: Securitas Annual and Sustainability Reports for the years shown.

WORLD LEADERS

Financial Performance

TECHNOLOGY AS A PERCENT OF TOTAL REVENUE

YEAR	GLOBAL %	North America %
2023	32.1	36.3
2022	27.7	30.0
2021	22.4	18.0
2020	21.7	17.5
2019	21.0	18.1
2018	20.1	17.4

The movement to enhance manned guarding with technology started by Securitas over a decade ago, as a way to offer better security at a lower or equal cost This goal was to have a 25% technology to manned guarding ratio by 2022. This was surpassed by the STANLEY Black & Decker acquisition delineated in this White Paper report.

GLOBALLY

Technology and solutions sales amounted to 32 percent (28) of total sales for the full year. Real sales growth, including acquisitions and divestitures and adjusted for changes in exchange rates, was 34 percent (44) with the acquired STANLEY Security as the main contributor. Real sales growth including STANLEY Security for the comparable period (consolidated as of July 22, 2022) was 9 percent

NORTH AMERICA

Technology and solutions sales accounted for 36 percent (30) of total sales in the business segment, with real sales growth of 42 percent (69) for the full year. The acquired STANLEY Security business in North America was the main contributor to real sales growth, although double-digit real sales growth within solutions also supported.

See Page 11 for “Important Note to Reader”
Source: Securitas Annual and Sustainability Reports for the years shown.

Financial Performance

Global Financial Performance
6 Months - June 30, 2024
Compared to
6 Months - June 30, 2023

(in Billion USD)

GLOBAL	Jan. - June 2024	Jan. - June 2023
Gross Revenue	7.4bn	7.2bn
Gross Profit Margin	21.3%	19.4%
Organic Sales Growth	6.0%	9.0%
Operating Margin	6.5%	6.5%

(in Billion USD)

NORTH AMERICA	Jan. - June 2024	Jan. - June 2023
Gross Revenue	3.0bn	2.8bn
Organic Sales Growth	3.0%	8.0%
Operating Margin	8.9%	8.7%

See Page 11 for “important Note to Reader”

The above monetary amounts result from converting Securitas’ local currency, “Swedish krona” to US$.

Source: Securitas H1 financial presentation

WORLD LEADERS

Key Performance Ratios

(Amounts are Approximates)

REVENUE:

GLOBAL	**USD 4.6bn**
NORTH AMERICA	**USD .5bn (est.)**
GLOBAL EBIT	**USD 302M**
FOOTPRINT	**31 COUNTRIES**
HEADCOUNT	**+150,000 EMPLOYEES**

See Page 11 for “Important Note to Reader”

WORLD LEADERS

Prosegur covers all activities related to the Private Security industry

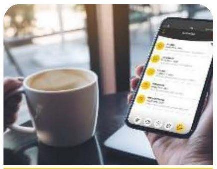
PROSEGUR CASH

- 2º Largest Global Cash Transfer Operator
- Profitability above the average industry levels
- Leader in emerging markets
- Business with high entry barriers and high recurrence
- Excellent future projection based on new products
  - *Cash automation systems in Retail*
  - *Cryptocurrency Custody*
  - *Bank agency outsourcing*
  - *Comprehensive management of ATMs*

PROSEGUR SECURITY

- # 5 Global company, with a leadership position in selected markets
- Leader in the technology solutions sector
- Expansion on mature markets with a disruptive value proposition.
- Committed to technological innovation with Intellectual Property, based on:
  - *Intelligent Security Operation Centers (iSOC)*
  - *Specialized solutions by sectors*
  - *Extensive use of artificial intelligence, IOT and machine learning*

PROSEGUR ALARMS



- Subscription-based business model with a very high cash generation
- Market leader in residential security in all the countries where it operates
- Low customer churn rates
- High double-digit growth, taking advantage of low market penetration and high demand
- Exponential accelerated growth through alliances with telco operators and banks

MOVISTAR PROSEGUR ALARMAS

AVOS TECH
a Prosegur company

- Outsourcing of High Added Value Financial Services (Front Office and Back Office)
- Strong growing market, driven by bank consolidation processes and online customer development
- Very attractive margins and double-digit growth
- Based on proprietary technologies and a high level of automation
  - *Compliance with Anti-Money Laundering regulation*
  - *Bank Reconciliation Software*
  - *Software for comprehensive insurance management*

cipher
a Prosegur company

- Powerful Cybersecurity service provider with global deployment
- Extended Managed Detection and Response services
- Cybersecurity Intelligence
- Managed Security services
- Proprietary own Products
  - *XMDR*
  - *CipherBOX*
  - *CipherMSS*
  - *Virtual Cyberanalyst WALDO*
- Differentiated offering, strongly supported by Prosegur customer base

In USD:

Revenue:

$2.0 bn	**$2.4bn**	**$179M**	**$97M**	**$17M**

EBIT:

$237M	**$76M**	**$9M**	**$6M**	**$<6M>**

See Page 11 for “Important Note to Reader”

Sources: 2023 Investor Presentation for Charts
2023 Annual Reports for monetary values

Financial Results - 2021, 2022, and 2023
Around the World

Financial Results - 2021, 2022 and 2023

in Billion USD

	2021	2022	2023
Revenue	$3.8	$4.4	$4.7
Gross Profit	0.90	1.0	1.1
Gross Profit Margin	23.1%	22.7%	23.4%
EBITDA	0.455	0.491	0.495
EBITDA Margin	12.0%	11.2%	10.5%

EBITDA is calculated on the basis of the consolidated profit/loss for the period for a company, excluding earnings after taxes from discontinued operations, income taxes, financial income or costs, and cost of repayment or impairment of fixed assets, but including impairment of property, plant and equipment.

The above monetary amounts result from converting Prosegur's local currency, "Euros" to US$.

See page 11 for "Important Note to reader

Source: Prosegur's Consolidated Directors' Reports for the years shown

Prosegur's Footprint and Revenue Growth Around the World

	2023	2022	(Increase)
	In Billion USD		
Europe	$1.924	$1.642	17.2%
Latin America	2.193	2.227	1.5%
Rest of the World	.536	.513	4.5%
Total	**$4.653**	**$4.382**	**6.2%**

Europe	Latin America	Rest of the World
Germany	Argentina, Brazil	Australia, China
Spain	Chile, Colombia	United States,
United Kingdom	Costa Rica, Ecuador	Philippines, India
Portugal, Austria	El Salvador, Guatemala	Indonesia, Singapore
Denmark, Finland	Honduras, Mexico	South Africa
France, Sweden	Nicaragua, Paraguay	
	Peru, Uruguay	

Note from 2023 Director's Report:

"The market where the most significant upward trend is expected is the United States, which is estimated to account for 12% of Prosegur's revenue by the end of 2030."

The above monetary amounts result from converting Prosegur's local currency, "Euros" to US$

See Page 11 for "Important Note to Reader"

Source: Prosegur's 2023 Consolidated Directors' Report

WORLD LEADERS

Prosegur's Six Month's Revenue

SIX MONTH'S REVENUE

(In Billion USD)

JUNE 30, 2024	$2.5
JUNE 30, 2023	$2.4

See Page 11 for "Important Note to Reader"

Prosegur Financial Results
Six Months
June 30, 2024 and June 30, 2023

Financial Performance
6 Months - June 30, 2024
Compared to
6 Months - June 30, 2023

(in Billion USD)

	June 30, 2023	June 30, 2024
Revenue	$2.4	$2.5
Organic Sales Growth	26.8%	44.1%
Inorganic Sales Growth	2.1%	-0.7%
EBITDA	0.243	0.276
EBITDA Margin	10.1%	11.0%

The above monetary amounts result from converting Prosegur's local currency, "Euros" to US$

See Page 11 for "Important Note to Reader"

Source: Prosegur's Q2 2024 Results Presentation

WORLD LEADERS

GARDAWORLD

(Amounts are Approximates)

GLOBAL REVENUES (Y/E 1/31/24) - 4.4 bn USD

U.S. REVENUES (Y/E 1/31/24) - 2.5 bn USD

See Page 11 for “Important Note to Reader”

Key Performance Indicators
(June 2024 "Run Rate")

Security Services
Global Reach, Local Expertise

$3.6B
FY24 Revenues

11%
Organic Growth U.S. Market

3%
U.S. Market Share

#1
in Canada

#3
in the U.S.

Crisis24
The World Leader in Integrated Risk Management

$436M
FY24 Revenues

13%
IRM Platform ARR Growth

180+
Risk Intelligence Analysts

Horizon
Next-Gen SaaS Platform Launched

ECAMSECURE
Uncompromising Remote and Virtual Surveillance

$130M
FY24 Revenues

56%
Organic Growth

5.0x
LTV/CAC

85%+
Subscription-based Model

Sesami
Unrivaled, Global One-Stop Integrator of the Whole Cash Ecosystem

$1.8B
FY24 Revenues

21%
Adj. EBITDA organic growth

350k
Intelligent Devices Deployed

70+
Countries

Monetary amounts are in CN$

See page 11 for "Important Note to Reader"

Source: GardaWorld website

Lines of Service and Area Revenue

Fiscal Years January 31, 2024 Compared to January 31, 2023

FISCAL YEARS (JANUARY 31)	2024	2023	Change
in million US$			
Protective Services			
North America	$2,158	$1,991	$167
International	900	855	45
Total Protective Services	**$3,058**	**$2,846**	$212
Cash Services			
North America	$1,217	$1,113	$104
International	103	91	12
Total Cash Services	**$1,320**	**$1,204**	$116
TOTAL REVENUE	**$4,378**	**$4,050**	**$328**

The above monetary amounts result from converting Garda World's local currency, "CN$", to U.S.$

See page 11 for "Important Note to Reader".

Source: GardaWorld year-end reports for the years shown

WORLD LEADERS

Revenues by Area

Fiscal Years January 31, 2024 Compared to January 31, 2023

FISCAL YEARS (JANUARY 31)		
	2024	2023
in million US$		
Canada	1,224	1,188
U.S.A.	2,497	2,369
Middle East & Asia	272	151
East Africa	184	189
Others	201	153
TOTAL REVENUE	**$4,378**	**$4,050**

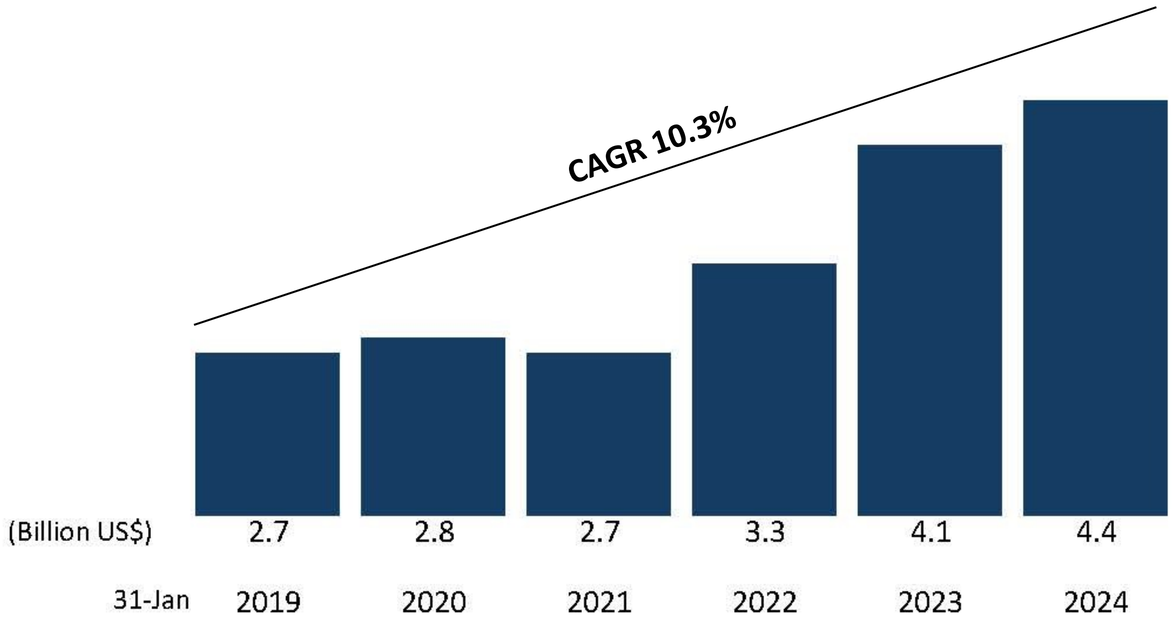
The above monetary amounts result from converting GardaWorld's local currency, "CN$", to U.S.$

See page 11 for "Important Note to Reader".

Source: GardaWorld year-end reports for the years shown

WORLD LEADERS

Around The World
Revenue Trend



The above monetary conversion amounts result from converting GardaWorld's local currency, "CN$", to U.S.$

See page 11 for "Important Note to Reader"

Source: GardaWorld year-end reports for the years shown

Inter-Con Security - Its Rich History

- Inter-Con Security was founded in 1973 by U.S. Army Veteran and retired LAPD Detective Lt. Enrique "Hank" and, his wife, Bertha Hernandez. From their kitchen table, the two invested their life savings into Inter-Con, with the ambition of building a new type of security company. Inter-Con would distinguish itself by providing security services to clients whose threat profiles exceeded the capabilities of traditional "guarding" companies.

- Now in its third generation of Hernandez-family leadership, Inter-Con employs a highly diverse workforce of over 35,000 employees across North and South America, Africa, and Europe, with sustained operational growth. Inter-Con provides tailored security services to Fortune 500 companies; public utilities; ultra-high net worth individuals; non-profit organizations; as well as federal, state, and local governments around the world.

Who We Are

50+ YEARS
Same Name, Same Ownership since 1973

$1B ANNUAL REVENUE
162% Purely Organic Growth Rate since 2021

35,000 EMPLOYEES
83.5% Diverse Workforce with 31% Female Representation

97% CLIENT RETENTION
100% Contract Defense Rate in 2024

100% FAMILY-OWNED
Hispanic Owned, Minority Business Enterprise

99.8% POST COVERAGE
<2% Unbillable Overtime Across All U.S. Programs

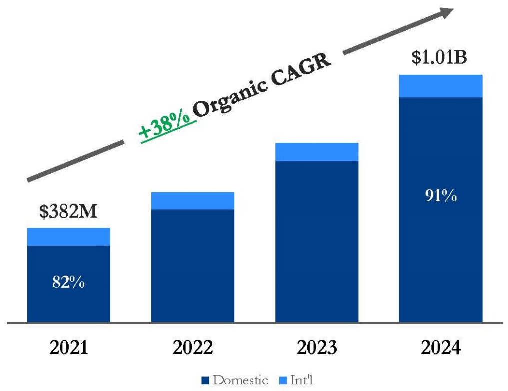
INTER-CON SECURITY 2

See page 11 for “Important Note to Reader”

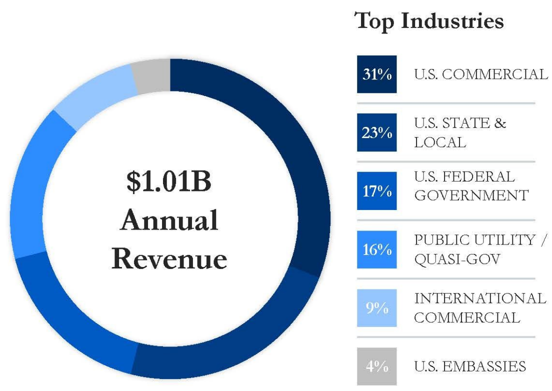
Information deck furnished by Inter-Con Security

Run-Rate Revenue by Period and Segment

Revenue by Period



Revenue by Business Segment



INTER-CON SECURITY 1

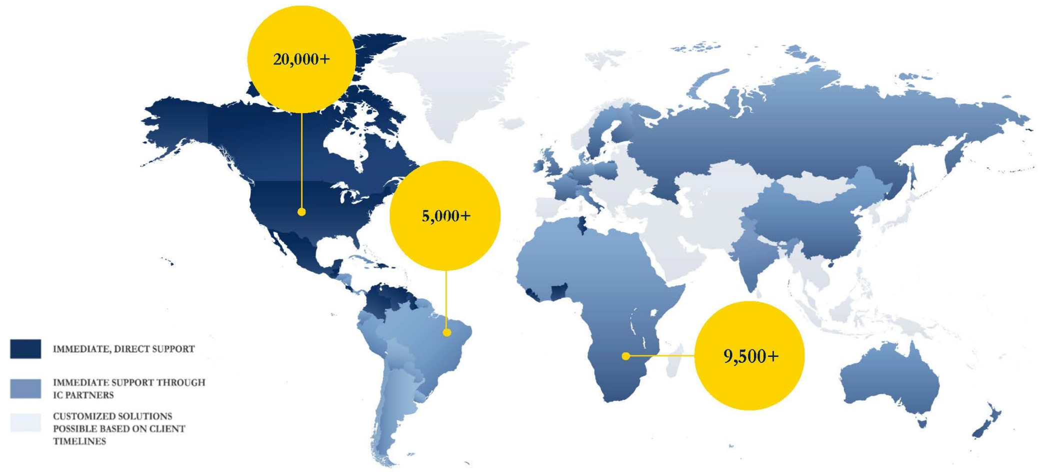
Note: Revenue for 2024 based on annualized revenue as of August 2024.

See page 11 for "Important Note to Reader"

Information deck furnished by Inter-Con Security

WORLD LEADERS

Global Reach

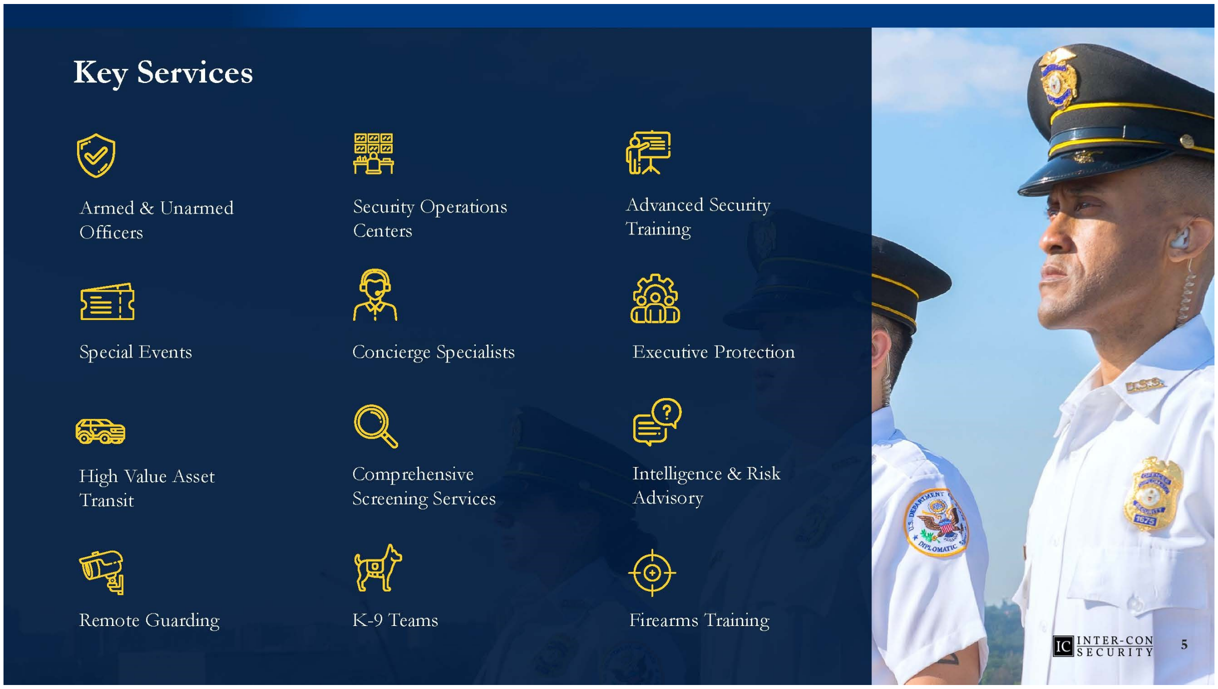


INTER-CON SECURITY 4

See page 11 for “Important Note to Reader”

Information deck furnished by Inter-Con Security

WORLD LEADERS



See page 11 for "Important Note to Reader"

Information deck furnished by Inter-Con Security

Peacemaker National Training Center

Elite Training Destination

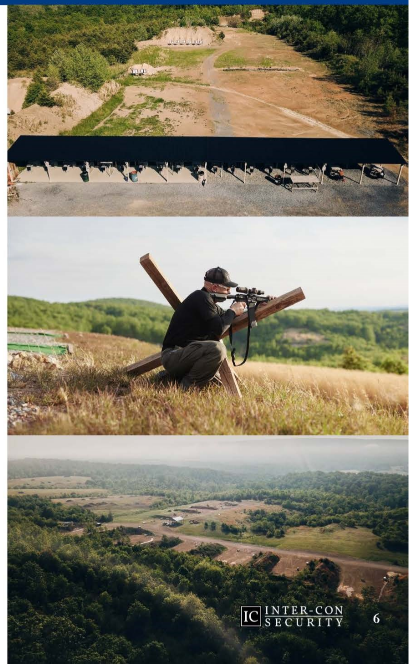
- Acquired by Inter-Con in December 2020, Peacemaker National Training Center is **one of the world's largest and most sophisticated training facilities**.
- Spans **over 800 acres** with **40+ advanced shooting ranges**, including multiple 1,000+ yard ranges

Specialized Security Programs

- Serves as the **central hub for all Inter-Con trainers**, ensuring high-quality instruction for all security personnel.
- Provides specialized **training venues for all shooting disciplines**, including unmatched long-range precision training.
- Training includes both **real-word and simulated operational environments**, including a live-fire MOUT village and virtual firearm simulators.

Trusted by Professionals

- Regularly **utilized by the world's elite security and defense forces**, including U.S. Secret Service, SOCOM, and the U.S. Department of State.



See page 11 for "Important Note to Reader"

Information deck furnished by Inter-Con Security

Paladin Security

Facts about the Paladin Group of Companies:

- Founded in Vancouver, British Columbia, in 1976 as Paladin Security, the company evolved into the Paladin Group -with operating companies described in the following deck of pertinent information.
- Fully owned by its full-time management team, it expanded to the U.S. market in 2015 through PalAmerican, its fastest-growing segment with revenues over $300 million.
- Paladin's North America revenue is currently $1.2 billion, coming primarily from organic growth, with minimal acquisitions-the largest beingCN$40M in Canada, and $25 million in the U.S.
- After acquiring several systems integration firms and selling this $400 million division to Bosch in 2023, Paladin is well-positioned for continued organic growth and selective acquisi-tions.

Security from Every Angle

Paladin Security takes an all-encompassing approach to security. We are comprised of companies that specialize in the protection of people, assets, and enterprises. We believe in providing meaningful services that directly impact the communities that we live and work in.

30,000+
Employees

48
Years of experience

74
Offices across North America

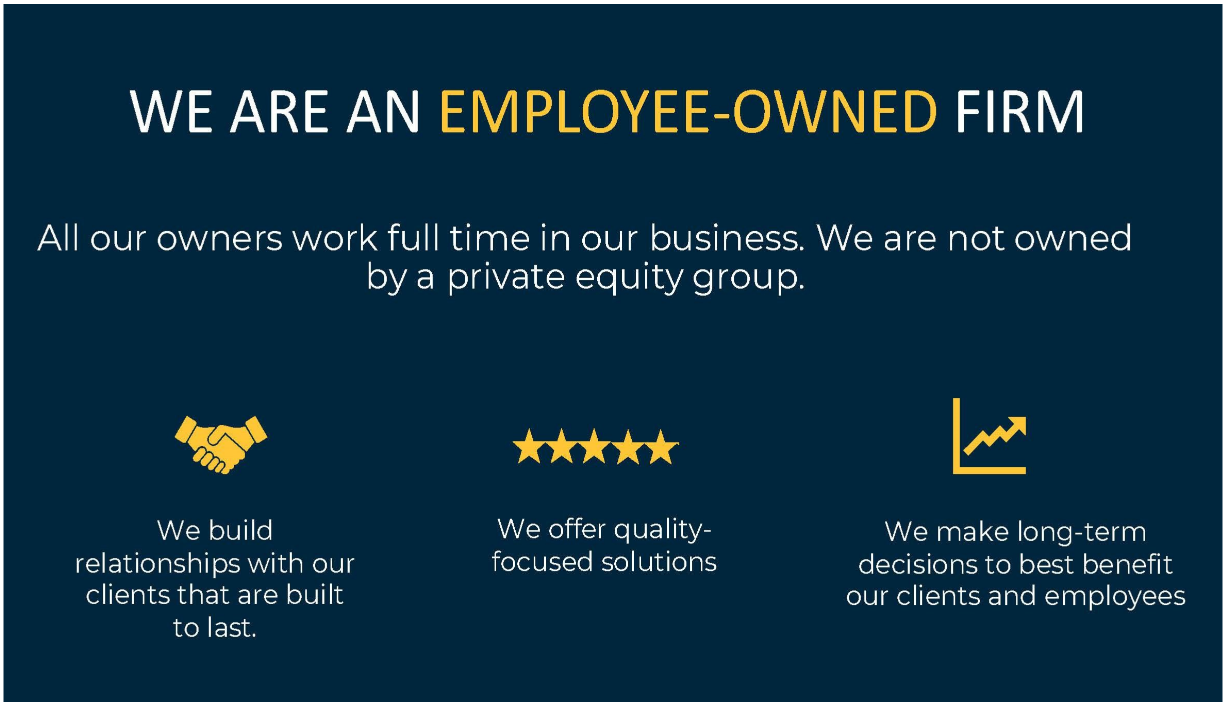
$1.21B USD
Annual revenue

Employee owned and operated

See page 11 for "Important Note to Reader"

Information deck furnished by the Paladin Group of Companies

WORLD LEADERS



See page 11 for “Important Note to Reader”

Information deck furnished by the Paladin Group of Companies

WORLD LEADERS

A comprehensive & integrated approach
to all your security needs.

Paladin Security	PalAmerican Security	Paladin Risk Solutions	Paladin Airport Security Services	Concord Parking
Highly-Quality, Professional Security Officers (Canada)	*Highly-Quality, Professional Security Officers (USA)*	*The "Go-To" Risk Management & Investigation Services*	*Airport Security Screening services in Canada*	*Forward-Thinking Parking Management Solutions & Technology*

See page 11 for "Important Note to Reader"

Information deck furnished by the Paladin Group of Companies

Our Culture

Paladin Security

Awards & Certifications

Our company's success depends not only on our vision and service, but also on the people who execute this vision day in, day out. This is why our proven management strategy revolves around a strong corporate culture that allows you to grow and thrive.

See page 11 for "Important Note to Reader"

Information deck furnished by the Paladin Group of Companies

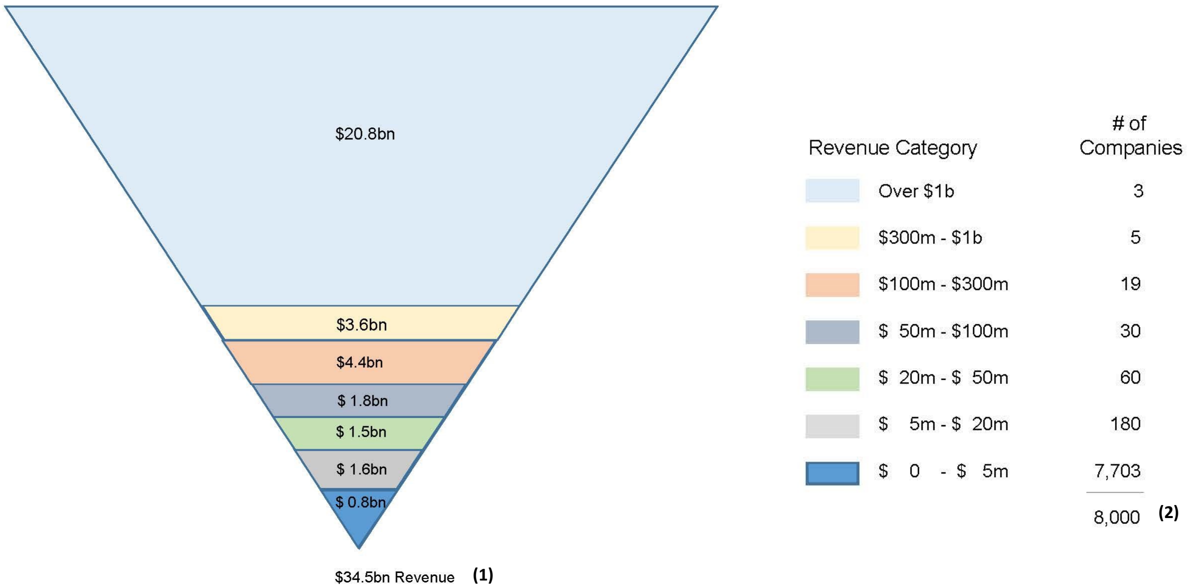
See page 11 for "Important Note to Reader"

Information deck furnished by the Paladin Group of Companies

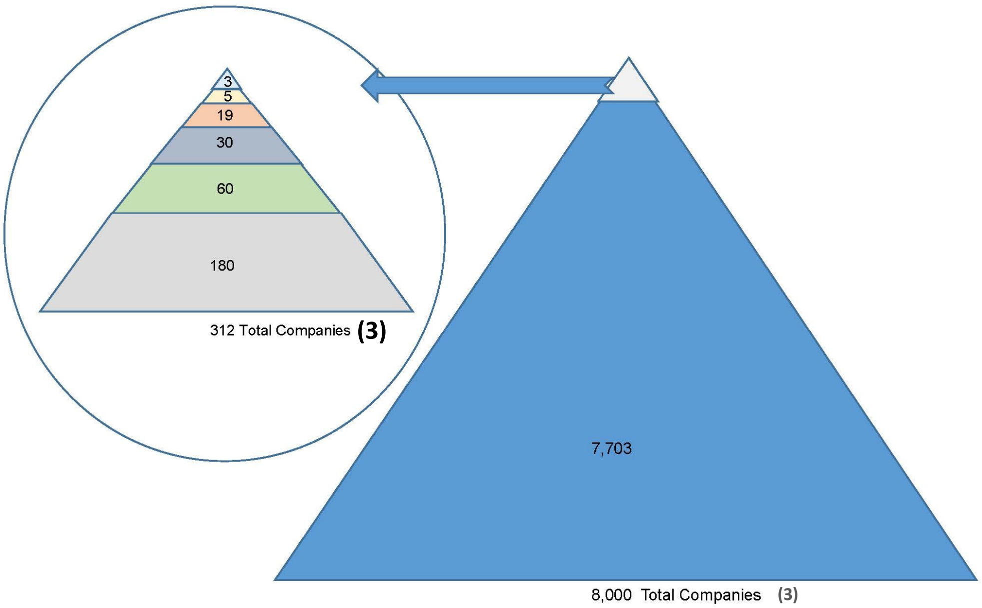
MARKET

Revenues and Numbers of Companies in Charts

Market Size in Dollars



Number of Companies



1. Estimated - See page 52 of this report
2. Arithmetical function to come to the 8,000 companies and $34.5 billion revenue
3. Information from annual reports and files of Robert H. Perry & Associates, Inc.

MARKET

Size of the Market

Movement of the revenue, the growth in the U.S. manned guarding sector, expressed in revenue and not billable hours, over the past 10 years has been in the 5% range. However, when the inflation rate is considered, the growth in this sector of the market has been a dismal 2-3%, or less.

Today, the market size and growth rates are increasing more dramatically than in the past. Based on the reports of the public companies and information provided by owners of privately held companies, we estimate that the run rate revenues for the ***North American market are now approximately $37.8*** **billion** - with approximately **8,000 U.S. companies representing $34.5 billion** of this amount. The $37.8 billion represents an increase of over 5%. We are not including cash-in-transit revenues (armored vehicles) - other than for Garda. We are also not including "pure play" Federal government security providers. This Federal market is large with Constellis alone reporting $1.3bn in revenue for 2023, making it difficult to quantify in terms of security spend in various world locations. The figures, if they could be obtained, would be distorted by the fact that there's a lot of minority and protégé sub-contracting that creates the possibility of double counting of the revenues in determining the size of this segment of the market. We are, however, including companies that provide security to the Federal government, along with a more significant amount of business coming from the private, commercial sector.

Furter, for the U.S. market, we estimate $30.2bn coming from manned guarding revenue and $4.3bn coming from technology. This is based on our review of the annual reports of the publicly reporting companies, news releases, and information provided by owners of the privately held companies and is delineated below:

Manned Guarding

- Increased revenues coming from increases in hourly billing rates to existing customers
- Increased revenues coming from new vertical markets – not previously requiring contracted security officers
- A movement from companies providing their security in house to contracting out this function

(Continued on next page

MARKET

Size of the Market (Continued)

Technology

Increased revenues, from existing and new technology, coming primarily from Allied Universal, Securitas, and Garda. The companies under these three reported insignificant revenues coming from technology.

- Prosegur, has an insignificant amount of technology revenues included in its approximately $500 million coming from U.S. customers, although a significant amount of technology revenue comes from Prosegur's operations in other countries.
- The Paladin Group sold its $400 million systems integration business to Bosch. Approximately $300 million came from U.S. customers. The effect of this divestiture was to reduce the technology size of the U.S. market by this amount.
- Securitas' purchase of Stanley, Black & Decker's systems integration business was fully integrated during the 2023 year, thereby increasing the U.S. sector of the market by approximately $1.2 billion.

There's an estimated ***$15 billion of potential revenue*** from companies presently providing their security function through in-house security personnel. These companies are starting to explore outsourcing their security needs – to companies that can deliver a more effective security function through state-of-the-art technology and better trained officers than that provided by their in-house security department.

MARKET

Number of Companies Operating in the U.S. Contract Security Market

There are still many sources reporting around 10,000 individual contract security companies in the United States alone. We believe these figures came from: 1. reports using NACIS codes, and in some instances, investigative and other small companies not offering traditional contract security services are included in this 561612 NACIS code classification, and 2. duplication in counting. Some reporting agencies are counting branch offices of a national, multi-office contract security company as separate companies.

Our firm has been building a database of U.S. contract security companies for more than 25 years and has identified approximately 6,000 single companies that employ more than one hundred personnel and provide mostly contract security officer services. Our database is reasonably accurate, and when the companies employing less than one hundred personnel are added, the total number of companies offering contract security officers is still in the 8,000 range. Although there has been a significant number of small companies sold over the past 10 years, we estimate an equal number of start-ups; therefore, we will continue to use 8,000 as the estimated number for the total U.S. contract security companies throughout this report.

The market is large and fragmented, and there's very little public information on the financial performance and the operating practices of the privately held companies. We have, over the past 25 years, come to learn that this lack of public information is due primarily to the nature of the business and the owner's mindset. It is, after all, the security business that by definition operates under a code of secrecy. There are no associations of contract security companies that accumulate and publish financial statistics on the industry.

Number of Employees

Finding credible information on the number of people working in the outsourced contract security market in the United States remains challenging. The report by the Bureau of Labor Statistics issued in May 2023, the most widely quoted source for the Security Market, indicates a total of 1,202,940 "Security Guards" - up from 1,124,890 from the previous year. However, the report includes some categories of labor that are not normally classified as outsourced manned security personnel, such as some in-house guards and certain Federal government security employees not included in the count for the revenue size of the market.

Therefore, we went to published reports for the large companies and our internal files for the smaller companies. As mentioned elsewhere in this white paper report, there has been a dramatic increase in the market size in terms of revenue coming primarily from billing rate increases and companies entering markets not requiring a significant labor component. An insignificant amount of the growth has come from companies that previously did not need security or companies with an in-house security force turning to contracting out their security function.

After taking this into consideration and the fact that there has been at least some increase in the workforce, we are pegging the number of security officers in today's market at 870,000. This estimate is 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.

MARKET

Outsourced Security Personnel vs. Public Police Force

The May 2023 Time magazine article on the Security Guard Industry said this about the number of outsourced security personnel, “There are roughly twice as many security guards employed in the U.S. than there were 20 years ago, according to the Security Industry Association, although the nation’s population has only grown 16% over the same time. By 2021, there were about two police officers, but 3.1 security guards, for every 1,000 civilians”.

However, what is uncertain at this point is the ultimate outcome of the movement from public police protection to looking for the private sector to fill this void. According to a survey out in 2020 by the National Police Foundation, 86% of the departments reported a staffing shortage - even before the wave of bad publicity from the high-profile murders, which has escalated since then. Although this is now a four-year-old report, more recent releases reveal the number of police is still shrinking. Many in the security industry are saying that the changes in how police officers conduct their duties and the lesser number on the streets will mean more companies and individuals will be looking for the outsourced security market to fill the void. As detailed under the “Tailwinds” of this white paper, this is already moving rapidly across our country.

Armed Security Officers

Based on our in-house records of the hundreds of manned guarding company owners with whom we have consulted over the past several years, it is estimated that, contrary to public opinion, less than 20% of security officers working for contract security companies carry weapons. This is up 5% from last year’s white paper report due to the increase in off-duty police officer services being offered by contract security companies and more customers wanting/demanding that their guards be armed. Also, many of the mostly commercial contract security companies are providing, to some extent, services to the Federal government, which require almost 100% of the security force to be armed. The ones that are armed today are more thoroughly vetted upon employment and go through extra training to qualify to carry the weapon. And the customers, for the most part, are willing to pay for it. For example, an off-duty police officer will make about twice as much as their civilian counterpart. The customer is willing to pay more for this higher profile security, sometimes as much as three times the normal billing rate - making this type of service much more profitable than traditional contract security services.

MARKET

The Technology Evolution

The Securitas Story . . .

For over twenty-five years, the market has been discussing the potential of technology replacing manned guarding. Initially, robots were considered, followed by drones, all touted as cheaper alternatives that eliminate the unreliable and unpredictable human factor.

The conversation gained momentum over a decade ago when Securitas, the largest and most vocal manned guarding company at the time, announced plans to enhance its manned guarding services with technology. Securitas introduced "Integrated Guarding," combining on-site security guards, mobile guarding, remote guarding, and electronic security. At that time, 8% of its total revenue came from this service offering.

In 2014, Securitas' revenue mix from "Integrated Guarding" increased to 10%. Alf Göransson, the then CEO of Securitas, highlighted the future of labor-intensive security companies, noting the increasing cost and complexity of labor, the rapid development and decreasing cost of technology, and the viability and security of video surveillance. This shift allowed Securitas to offer better security at a lower or equal cost, especially in countries with high salary costs.

Göransson, along with the current President and CEO of Securitas, Magnus Ahlquist, have emphasized that this combination of technology and manned guarding creates a paradigm shift and a significant opportunity for security companies with the financial strength to invest in technology. ***Citing companies that fail to adapt will struggle to survive***, as creating customer value solely through guarding hours will become increasingly difficult. This paradigm shift requires substantial investments in technology.

Securitas' latest annual report indicated that after fully integrating the Stanley, Black & Decker acquisition, 30% of its global revenues and 35% of its North America revenues would come from integrated guarding. This surpassed its 2013 goal of having 25% of revenues from integrated guarding by 2022. As the mix of integrated guarding increased, gross profit rose from around 18% to over 22%, despite terminating some unprofitable customers. The operating margin for "Integrated Guarding" was 10.8%, compared to 4.9% for other security services, with a group margin of 6.5%.

The report also mentioned that 75-90% of Securitas' guarding portfolio has the potential to be converted to technology and solutions.

Other large companies are also making significant investments in technology:

Garda World, for example, has heavily invested in Crisis 24, a global AI-enhanced platform for crisis response, representing CN$436 million of its annual revenue. ECam Secure, providing remote and virtual surveillance services, represents CN$130 million of Garda World's revenues. Sesami, an integrator of the whole cash ecosystem, represents CN$1.8 billion of annual revenues.

Allied Universal offers various technology platforms, including incident reporting and GPS tracking through its Helius technology, AI, offsite video monitoring through its Thrive subsidiary, hosted managed services, and identity management. Approximately 10% of Allied's estimated $21 billion in revenue comes from its technology offerings.

The smaller companies catching up …

Our owner's survey revealed that many firms with revenues exceeding $100 million already implement some form of advanced technology, although not as sophisticated as the leading three mega companies. However, smaller businesses have substantial progress to make in providing the type of technology their customers will soon demand. The primary challenge for these smaller companies lies in deciding what type of technology to offer and determining how to finance it. In April of this year, a record number of predominantly manned guarding companies attended the ISC West technology trade show in Las Vegas. They were exploring their options on what they might need to meet the demands of increasingly discerning customers; this issue will become more pressing as technology becomes integral to security services regardless of the company size. Some owners reported difficulty distinguishing between costly "gadgets" and genuinely transformative security technology.

With so many options, it's challenging for the small company to decide where to invest for the fastest and most effective returns. Consequently, until owners gain more insight into the technology they need and can afford—which remains a significant hurdle—most smaller companies currently offer surveillance cameras, robots, drones, offsite video monitoring, and systems integration through subcontractors. These owners are neither making nor losing money on the subcontracting arrangements but use them primarily to retain customers who might otherwise switch to larger providers. Nonetheless, this strategy can sometimes result in quality control issues and potential loss of clients.

MARKET

Manned guarding, Technology, or Both?

Numerous recent articles discuss whether technology will replace security guards, with a prevailing consensus that technology will not replace manned guards or reduce billable hours significantly. Instead, the relationship will be a partnership between the two functions, where security officers will receive training on utilizing technology to deliver better and more efficient security solutions. The reports highlight the critical role of human presence in security functions. Customers find reassurance in seeing a human guard on-site, something that cannot be provided by a robot, drone, or other technological means. An article in "Asset Education" [www.asset.edu.au], though originating from Australia, is applicable to the U.S. market as well. It states: "Technology has become an indispensable ally for security guards, enhancing their capabilities, efficiency, and effectiveness in safeguarding various environments. While technological advancements offer immense potential, the synergy between human expertise and technological innovation remains paramount in ensuring comprehensive security solutions. As the landscape continues to evolve, the integration of technology will continue to redefine the role and impact of security guards in ensuring safety and protection in our ever-changing world."

MARKET

Defining Private Equity Groups

Private Equity Groups (PEGs) consist of executives skilled in managing large companies and experts in financial analysis. These groups excel in identifying, acquiring, and managing companies that need capital for growth or improvement. Investors typically include large pension funds, insurance companies, wealthy individuals, family partnerships, municipalities, PEG members, and sometimes the company's seller. As per the Private Equity Growth Capital Council, over 3,300 private equity firms in the U.S. own more than 11,000 businesses, employing approximately 7.5 million people.

Private Equity Groups Investing in the Contract Security Market

Traditionally, PEGs were focused on biometrics and electronic security due to higher margins and lower liability compared to manned guarding. However, they have now heavily invested in the contract security market, with an anticipated increase in investment. This interest stems from PEGs needing recession-proof ventures and the spotlight on public/private security efforts against crime, mass shootings, and findings from "The World Security Report" by Allied Universal, which surveyed 1,775 chief security officers from major global companies with $20 trillion combined revenue in 2022.

The U.S. revenues from Private Equity owned North American based contract security companies are now approximately $16 billion (over half of the total market) and will definitely get larger as other Private Equity firms learn more about the merits of investing in contract security – although the market is not necessarily recession proof, it fares much better than the general population of companies do in an economy affected by COVID-19, as well as other challenges to our economy such as recessions.

Private Equity has a lot of idle cash that needs to be put to work. According to an April 04, 2024 report by E&Y Advisors…. "Beyond venture capital, PE firms are also well positioned to thrive, with close to US $1.2 trillion in capital at their disposal. Their diversified portfolios, which include new asset classes, and deep sector and functional expertise also provides advantageous positioning".

MARKET

Private Equity Groups Investing in the Contract Security Market (Continued)

While we do not expect much of this idle cash to enter the contract security market due to less attractive returns, some funds are already being deployed there. It’s challenging for Private Equity Groups (PEGs) to find flagship contract security companies with revenues over $100 million and with realistic selling prices due to Allied Universal's buying spree. Owners of suitable companies are either not selling or overestimating their value. As a result, aggressive PEG buyers are lowering their criteria, yielding interest in smaller sell-side engagements with revenues below $100 million. Some PEGs are now considering companies with an EBITDA as low as $2.5 million and even acquiring flagship firms with $20 million in revenue, subsequently growing by adding smaller tuck-in companies.

Private Equity has been a Source of Retirement for Owners of Well-Run Companies

Over the past decade, a handful of PEGs have acquired over two hundred private companies in the contract security market, rewarding sellers for years of hard work. Large firms like Securitas and G4S (before its sale to Allied Universal) have stayed out of traditional manned guarding acquisitions for about 15 years, not being preferred buyers. Private companies can't match the high bids from PEGs because they rely on bank loans, which require them to use their company's net worth and personal assets as collateral—something many are unwilling to do.

U.S. Revenue from PEG owned companies

	REVENUE
PEG-Owned Companies (14 PEG's)	$16.0bn
Public - Securitas & Prosegur	5.3bn
Remaining Privately Owned	13.2bn
Total U.S. Market	$34.5bn

MARGINS

MARGINS

For the purposes of this presentation on Margins, we will use the term to express the gross profit at the site level divided by the revenue produced from the site.   It's an important benchmark in showing how the company rates when compared with its relatively same size competitors and how successful (or unsuccessful) a company is in : managing its relationship with its customers, controlling non billable over time premium, managing its workers compensation and general liability costs. It also demonstrates how the amount of technology the company has to offer, which usually carries a much better margin than the traditional standing security function, is affecting the margins.

The Movement of the Margins

Decade leading up to the pandemic: Margins were on a steady decline for most companies due to more intense competition coming from the larger competitors.

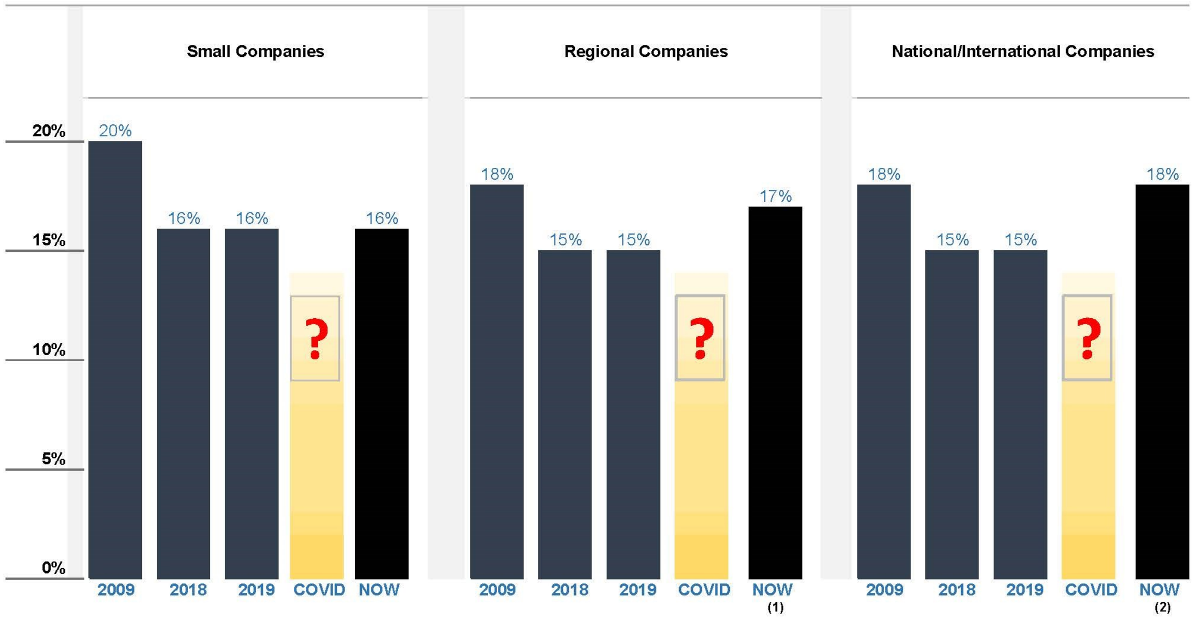
During the pandemic: margins declined dramatically due to shortage of labor thereby increasing non billable overtime premium pay, and unmanned posts due to security officers not showing up – thus a lower billing to the customer. There were isolated instances of companies actually having record profits during this time coming from temperature testing services, but that quickly subsided. Also, the Federal government issued Payroll Protection Payments to many small companies to keep them afloat, and that also soon ran out.

Coming out of the pandemic: Security companies started increasing the pay rate to the security officers as a way to bring in more officers, thereby decreasing the non-billable overtime premium pay. The companies started an appeal to the customers to increase billing rates to cover the higher pay to the officers, which was mostly done gradually and, on a customer-by-customer basis. Despite the success in getting the increases, it came slowly, and the security companies remained in a period of lower margins during the period coming out of the pandemic.

Today: most owners that took part in our survey reported a lot of success in getting the customers on board with a billing rate increase. Many of the owners actually terminated customers that did not or could not go along with increases. The non billable overtime is now around 6 – 7% in most cases, down from a rate as high as 12 – 13% during the pandemic. Companies are behind in bringing on sophisticated technology that tends to increase margins and are worried about what the higher interest rates will mean to their cost of doing business going forward. All owners taking part in our survey, expected an increase in insurance rates – general liability as well as workers compensation; as well as more scrutiny over what the insurance companies will actually cover; citing a more conservative approach by their insurance providers to charge a higher premium for the higher liability work and in some cases not providing coverage at all for some vertical markets.

MARGINS

Site Level Margin Trend

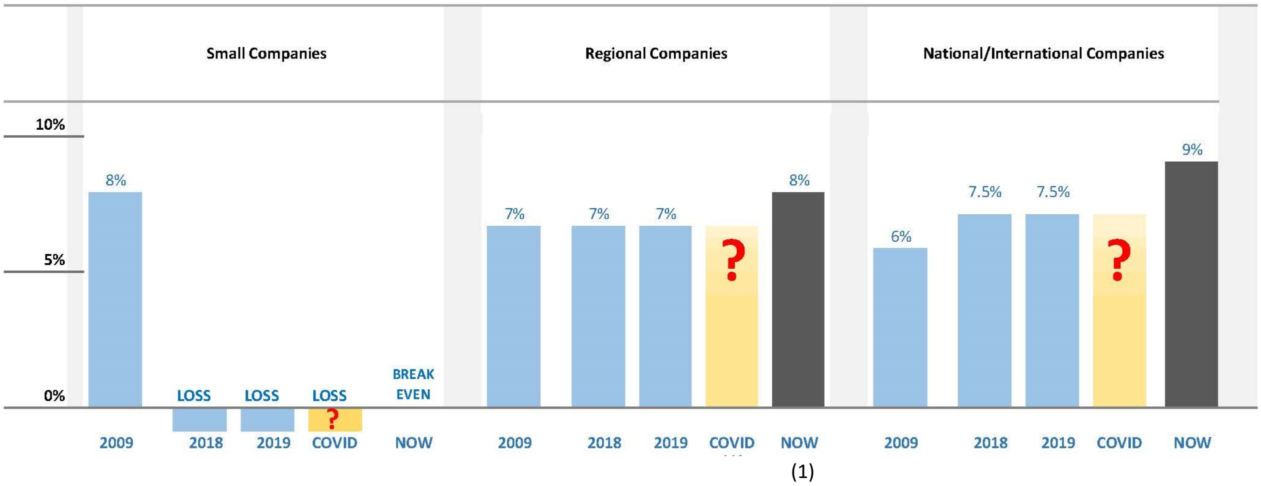


(1) The regional companies had an increase in profit margin from the pre-covid period for the following reasons: Some, but not many, now have a technological offering that carries a higher margin. Also, all reported a significant decrease in non-billable overtime from the COVID period and increasing revenue through taking customers from their larger competitors, at higher than their average billing rates.

(2) The margin for the national/international companies grew at a greater pace than the lower categories for the following reasons: Securitas is in the mix at a gross margin of around 23% for the US alone with the Stanley Black & Decker systems integration acquisition fully integrated; in spite of carrying some unprofitable business during this period, which has since been divested or in the process of being divested. Without these unprofitable businesses, Securitas' margin would be even higher. Also, Allied Universal, with about $13 Billion of revenue in North America, is showing a margin of approximately 20%, driven by a significant amount of revenue coming from its higher margin technology offerings. These two raise the average margin for this international category significantly.

MARGINS

EBITDA Margin Trend



(1) The EBITDA margin for the regional companies operating multiple branch office locations varies depending on how efficient the branches are operated. For instance, if the company has to have a brick and mortar fully staffed branch office to satisfy a particular large customer having multi state locations, the EBITDA of that company will be lower than other regional companies with branches operating more efficiently. We have identified some large regional companies showing an EBITDA margin in the 12-13% range that have an operating model that allows them to operate from coast to coast with a limited number of branch offices.

MARGINS

Defining Terms on the Previous Charts

SITE LEVEL MARGIN

Site level margin is the gross profit as a percentage of revenue. .Direct costs, toward computing gross profit, are all costs assigned to the site, such as: compensation for the billable officers, wages for the dedicated non-billable supervisors, 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.

EBITDA

Earnings Before Interest Taxes Depreciation and Amortization.

SMALL COMPANIES

Revenues less than $10 million; the 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 companies, along with the national/international companies, are in a state of transition. Most are getting billing increases to offset pay rate increases - and, in a lot of cases, a margin pickup. However, since the bill rate increases are coming in over a period of time, the positive effects are not yet fully showing up in the trailing twelve-month financials.

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.

MERGERS

MERGERS

Reporting period: year 2023 to September 06, 2024 (the date of publishing this white paper report)

There was one pure play manned guarding company transaction with revenues exceeding $100 million during the reporting period — see Sunstates/Trilantic announcement on the following page. We followed 40 smaller, mostly unannounced, acquisitions initiated and managed by our firm, other brokers, or non-brokered transactions. There were many acquisitions in the alarm and cyber security industries and AI applications, which are not covered in this white paper report.

The transactions during the Reporting Period ***significant*** to understanding the direction of the industry are delineated below. A comprehensive list of transactions in the manned guarding and systems integration sector can be viewed from our website under World Transactions.

Paladin Group of Companies divested its technology business

In July 2023, the Paladin Group of Companies, founded in 1976 in Vancouver, British Columbia, announced the planned sale of its Paladin Technologies business to Bosch Building Technologies. The transaction closed in September. Paladin Tech went on an acquisition spree in 2021 creating a significant systems integration company providing access control, intrusion detection, monitoring, and audiovisual solutions with 1,500 employees, and revenues approaching $400 million generated from eighteen offices across Canada and seventeen in the U.S. While the parties agreed not to announce the purchase price and terms, based on the selling price to revenue ratio of similar system integration company transactions, it's estimated that the price was in the $500 million to $600 million range (approximately 125% - 150% of revenue). This acquisition brings an unusual twist to how the manned guarding companies plan to grow. The transaction takes the Paladin Group away from being an **owner** of a technology company – that offers systems integration to enhance its manned guarding services – the direction most companies are going in today. Paladin will now subcontract its systems integration business to Bosch, who picked up Paladin's line employees and management. The Paladin Group will use the proceeds from the sale to pay down expensive debt accumulated while it was on its systems integration acquisition spree, leaving a large war chest for organic and acquisitive growth in its manned guarding and parking services offerings.

Subsequent to the Paladin Technologies acquisition, Bosch announced its plans to divest its security products business making it a "pure play" system integrator employing over 7,000 people in eight countries.

Above from "Security Sales & Integration" – July 05, 2023

MERGERS

ADT Spun off its Commercial Integration Business

With approximately $7 billion in revenue, on August 08, 2023, ADT announced the sale of ADTC, its commercial security, fire, and life safety business, to GTCR, a leading private equity firm, for a purchase price of $1.6 billion – a multiple of 11.2X adjusted EBITDA. GTCR manages over $25 billion in equity capital and has committed to additional investments in ADTC. Subsequent to the acquisition, ADTC was rebranded as Everon. Prior to this sale, ADTC was already competing with the manned guarding companies that offered systems integration services and will now be competing in the manned guarding segment with heavy financial backing from GTCR. Everon immediately got proactive in growing through acquisitions. An April 2024 issue of “Security Business” reported that since Everon joined GTCR, it has looked at over one hundred acquisition targets and has purchased five. Everon is also expanding its menu of offerings. An August 2024 issue of “Security Technology” writes about Everon’s entry into the Security Robot arena. [*RHPA comment: This puts Everon competing with many of the manned guarding companies that are presently, or considering offering this service.*]

Above from “ADT News” – August 08, 2023

Garda World completed the acquisition of OnSolve

On July 31, 2024, Garda World Security Corporation announced on its website that it completed the acquisition of OnSolve, LLC, a leading provider of critical event management and MassCom services, including risk intelligence, mass notifications, incident management and travel risk management solutions to enterprise customers, small and mid-market businesses, and government agencies.

The announcement further stated that OnSolve will join Garda’s Crisis24business [reporting CN $436M in revenue for the fiscal year end 1.31.24]. Simultaneously, Gada World borrowed CN $400 million, most of which was to pay for this acquisition.

MERGERS

(Continued)

Sunstates Security Partnered with Trilantic North America

A post to Sunstates Security's website on August 09, 2024, announced a partnership arrangement with Trilantic North America, a private equity firm established in 2009, with $10.9 billion in aggregate capital commitments.   Sunstates, with an estimated $300 million in revenue, has enjoyed a compound annual organic growth rate of 25% over the last 10 years.

MULTIPLES

MULTIPLES

Some History . . .

According to our research, the big deals started over 40 years ago (1982) when American Brands, Inc., a huge publicly held conglomerate, added to its diverse holding by buying Pinkerton's Inc. – then one of the biggest names in security services.

Six years later, CPP Security Services, a Van Nuys, California-based provider of security guards nationwide, bought Pinkerton's from American Brands, creating a company with annual revenues of over $650 million, when combined with CPP's existing business. This gave the newly merged company over 10% market share as the biggest player in the, then, $6 billion security "guard" market.

We followed many large deals following the CPP/Pinkerton's merger, and although most were announced, only a few revealed the purchase price. Below are the transactions for which the purchase prices, expressed in multiples of EBITDA, were announced:

1999 - Securitas entered the U.S., the largest security market in the world, by buying Pinkerton's for 12.3X EBITDA.

2000 - Securitas bought Burns Security, with revenues of $1.5 billion for 8.9X EBITDA.

2002 - Group4/Falck (now G4S), entered the U.S. market by purchasing the Wackenhut Corporation, with a heavy concentration in government and prison security; a lot being offshore. Given the heavy concentration in public bid type work, the multiple was lower than usual, coming in at 7.8X EBITDA – for a $2.8 billion company.

2009 - Andrews International, owned in the majority by the Audax Group, a large private equity firm, bought Vance International from SPX , for a multiple of 9.8X EBITDA. the revenues of Vance at the time of the sale were $128 million.

2015 - The Wendel Group bought AlliedBarton Security Services from the Blackstone Group for $1.67 billion at a multiple of 11.6X EBITDA.

2018 - Allied Universal buys US Security Associates for a little over 10X EBITDA. At the time of the purchase, USSA had revenues of approximately $1.5 billion.

2019 - Allied Universal was valued at almost 100% of annual revenue - about 12x EBITDA - in the sale of the majority interest to CDPQ in December of 2019 - giving Wendel almost 2.5 times its original investment in a little over one year of ownership.

2021 - Allied Universal pays approximately 11X trailing EBITDA, in an auction process, for G4S to form, at almost $20 billion in revenue, the largest security company in the world. Allied Universal paid around $5.3 billion and assumed approximately $3 billion of debt in the deal, making the enterprise value about $8.3 billion.

2022 - Securitas bought the systems integration business from Stanley Black & Decker. The purchase price was $3.2 billion for $1.8 billion of revenue coming in at around 16X trailing EBITDA.

[NOTE: systems businesses typically sell for higher multiples given their higher margins and more predictable income stream].

MULTIPLES

Are high interest rates affecting valuations?

The large companies . (primarily revenues over $50 million annually)

The climbing interest rates dramatically affect the prices companies, or private equity groups, ***should*** pay for their targets. The higher interest on acquisition loans is usually, but not always as mentioned below, passed on to the sellers in the form of a lesser price. A July 29, 2023, issue of "The Research Pitch" reported that purchase price multiples [for companies across all industries] are down roughly 20% from the 2021 peak (-24% based on revenue multiples, -16% using EBITDA multiples).

However, the valuations of large contract security companies are still strong and seemingly haven't been affected by the high rates – at least for now.

The large company will have an organization in place that is capable of taking on additional business with very little added overhead. It will be, in today's environment, a flagship candidate for an aggressive private equity group looking for an entry into the security space. It will be a customer generator with net growth of 8 – 10% annually.

There are well-qualified buyers still quoting multiples in the 8 - 10X EBITDA range on an enterprise value - cash free/debt free - basis, or higher, for these **large privately held** security companies, in spite of the high interest rates. The interest in the security space is very strong. There's a definite uptick in calls we're receiving from Private Equity Groups that, although it's costing them more to borrow money right now, are anxious to buy a flagship company in the fast growing and very opportunistic contract security market, and they're willing to pay a premium to get the seller to the negotiating table.

However: owners using market average multiples trying to determine what their company may be worth if it were to be put up for sale in today's market could be drastically under or overvaluing the company since the multiples are usually not applied to the seller's reported EBITDA. Most buyers make adjustments as more fully delineated below.

Some use EBITDA resulting from the trailing twelve months (TTM) revenue. Some use the TTM with adjustments for revenue added or lost during the TTM period, especially for the smaller companies, as detailed below, and often for the larger ones as well. Other buyers use a combination of the above methods with further adjustments for nonrecurring expenses and excess owners' compensation. And other buyers allow for redundant cost eliminations through integrating the businesses post closing.

Also, buyers pay premiums or lesser multiples depending on the target's account characteristics and operating areas. For instance, if the target has mostly low liability accounts with attractive retention periods and account concentrations and operations in target geographical areas, the buyer may pay multiples on the higher side. Conversely, if the above characteristics are unattractive, assuming the buyer is even interested in the company, the multiple may be much lower.

Considering the above variables, a quoted high multiple may result in a lower selling price than a lesser multiple depending on how the buyer is computing the EBITDA against the multiple being applied.

MULTIPLES

The large companies owned by PEGs will continue to buy their smaller competitors but not at increased multiples. Although they need to get large quickly before they sell or reorganize at the end of a 5-7 year holding period, they will still do the “buy vs build” analysis. They’re asking the question: Do they pay a high multiple for a company just to grow faster, or do they use their funds set aside for acquisitions in a more robust marketing program?

Over the reporting period, we found that many of the large and small private equity groups invested in the security space are having unprecedented organic growth and entering new vertical markets previously provided by acquisitions of their smaller competitors. They are still buying but are more selective in the companies they will consider; thus, they have left the “buy now, fix later” mode.

The multiples being paid for the smaller companies are in the 5X – 7X EBITDA range, with the same adjustments and different methods of computing the EBITDA as set forth above for the larger companies but usually with more generous credits for the redundant cost eliminations when the two companies are integrated – thereby an attractive selling price for some companies that are actually losing money under the seller’s ownership. And the smaller acquisition candidate of today must meet the same much higher criteria of the buyer in terms of vertical markets served, geographical location of the customer sites and gross profits (profit at the customer site level). Although some of the generous buyers may acquire a company that needs “fixing,” they will offer a much lower multiple.

Also, the private equity group owners are relying more on the 3rd party firms to perform a Quality of Earnings Report on the company they’re considering buying. The 3rd party will get very detailed in checking out the company and they’re expensive – but necessary in giving the private equity group buyers the assurance they need in making the acquisition. This increases the cost of the acquisition to the buyer and is often passed on to the seller in the form of a lower offering price for the company.

Solving the valuation dilemma (of large and small companies)

The prudent owner anticipating a sale in today’s uncertain market is seeking the advice of intermediaries experienced in managing the sale of contract security companies to advise on a probable selling price given the above-mentioned different ways the buyers are valuing the targets. They are doing this before the decision is made to enter into private negotiations with an already selected buyer or put the company on the market to be managed by an experienced intermediary in a controlled and confidential auction process.

OUTLOOK

OUTLOOK

THE OPPORTUNITIES FOR SECURITY COMPANIES IN TODAY'S MARKET

Our country and the world have gone through unprecedented times in the past 4 1/2 years. In addition to all the shutdowns caused by the pandemic, our country has seen a dramatic increase in political upheaval, border crisis, racial unrest, mass demonstrations (many causing harm to individuals and property), school and mall shootings, and the latest challenges being the run-away inflation that may result in a recession. All this upheaval caused a large increase in an awareness of the need for more effective security - exhibited in the form of in-house security being converted, or supplemented by outsourced security, as well as existing customers demanding a more effective security offering.

Allied Universal's commissioned "World Security Report – 2023" is the most recent and very compelling presentation on global and domestic companies wanting and needing more and better security and front-line professionals to make it all happen.

[Select Excerpts]

Around the world

In this first ever report of its kind, 1,775 Chief Security Officers (CSOs) – or those in equivalent positions – were anonymously and independently surveyed to learn about the emerging and evolving threats they face, the technology they use and want to use, the people they employ, the skills they value, and the future of security globally. Respondents were from large global companies in thirty countries with a combined revenue of USD $20 trillion in 2022. That's almost a quarter of the world's total annual gross domestic product (GDP).

The significance of the findings should not be underestimated. The world is an increasingly dangerous place and the hazards and threats that companies face are ever more complex and multidimensional.

In 2022 alone, more than USD $1 trillion in revenue was lost by companies as a consequence of internal and external physical security incidents. This is similar to the monetary impact caused by cyber incidents. One in four (25%) publicly-listed companies reported a drop in their corporate value in the last 12 months following an external or internal security incident. Additionally, two hundred global institutional investors were surveyed to understand the impact of security incidents on the values of publicly-listed companies.

The actual impact can be significant, with those investors estimating an average decrease in stock price of 20% in the wake of a significant internal or external security incident in the last 12 months.

Nearly half of CSOs surveyed believe that economic unrest will be the biggest security impacting hazard over the next 12 months.

Nations around the globe face multiple, significant economic pressures, including rising inflation and cost of living challenges, exacerbated by the first European war in a generation. These issues come on the heels of sizeable economic shocks following the COVID-19 pandemic.

The data confirms what we have already experienced – physical and cyber security are increasingly interlinked. The survey shows that nine out of ten respondents said cyber threats, which threaten physical security systems, are challenging to their businesses.

Security budgets represent 3.3% of global revenue at respondent companies, which is around $660 billion annually. Almost half of CSOs said physical security budgets will increase significantly in the next 12 months, driven primarily by rising costs, economic instability, and domestic security concerns.

OUTLOOK

North America

There are broadly two types of security buyers and the less advanced tend to simply want guards on posts, without giving much consideration to skills and qualifications. Technology development is the biggest disruptor in the workforce, but its impacts are likely to be positive overall. As technologies develop, SCOs want technology-savvy front-line security professionals. However, they are not easy to find.

Shrinking Public Police Forces, as well as increased crime, are putting a high demand on Contract Security Services

Many companies in our survey reported an increase in revenue resulting from an increase in crime and the shrinking police forces. See the headlines, and quotes, below that, underscore, and support what the owners are reporting:

- Fox 32-Chicago on May 06, 2022 – "Private security in Chicago neighborhoods is becoming the norm, all in an effort to cut down on crime. Private patrols can already be found monitoring neighborhoods . . ."

- The City Journal of Minneapolis, on September 16, 2022, reported: "More than 250 officers have resigned or retired since June 2020. Meantime, crime has spiked, with ninety-six homicides in 2021 – doubling the number in 2019 and tying a 1995 record. Private security has stepped into the breach."

- WNCN in Raleigh, N.C. on March 02, 2023 – "In Raleigh and throughout North Carolina, private security companies say homeowners and business owners are budgeting more money for private security."

- New York Post on March 10, 2023 – "NYPD cops resigning in new year at record-breaking pace- with 117% jump from 2021 numbers. The NYPD saw 3,701 cops retire or resign in 2022, the most since 3,846 cops departed in 2002, after the 9/11 attacks."

- Time Magazine – April 24, 2023 – "Private Security Guards are replacing police across America."

- Scripps News – May 19, 2023 – "Not just 'Mall cops': why the private security industry is growing. More communities struggling with crime are adding private security to keep an eye on things."

- SecurityInfoWatch on August 04, 2023, reported under the headlines: As police forces struggle, can the private security industry seize the moment?

    - "Despite all the industry buzz about artificial intelligence and robots replacing traditional security guards, the threat to the environment and uptick in violence in many U.S. cities suggest otherwise."

    - "Statistics, studies, and interviews conducted by this publication, suggest private security forces will be more needed than ever as public police departments struggle with recruitment, retirements, high costs for wages and equipment, and anti-police sentiment."

OUTLOOK

- Steve Amitay, the executive director of the National Association of Security Companies (NASCO) said in an August 10, 2023 article of SecurityInfoWatch ….”… there is clearly an increased environment of unrest in the U.S., whether it's retail theft, organized criminal enterprises, active shooter incidents, or political extremism. Who would have thought 10 years ago that you'd have to hire a security guard on election day at polling places, or a school board meeting?” Amitay goes on to say …. “You're also seeing a sea change in the attitude of the general public in terms of whether they feel safe or not.”

- On July 03, 2024, the ***Capital News Service*** ran a headlined article: “More companies in Maryland hiring private security guards to ward off crime”. The article went on to report …. “...As retail and property crime rise and police ranks thin, Maryland neighborhoods, apartment buildings, big box stores, fast-food chains, hospitals, banks and schools rely on more than 26,000 licensed private security guards to deter crime and provide a sense of safety, according to state data and industry specialists”.

Customers Giving Less “Push Back” to Bill Rate Increases

As mentioned in the section on “Margins,” security companies are now more successful in getting bill rate increases to offset, or partially offset, the increased pay to the officers. The security companies are going after the increased bill rates now, while the labor shortage is still on the minds of the customers.

Advanced Technology Becoming Less Expensive; Making it Easier for the Smaller Company to Compete

We've seen over the years that what used to be expensive technology is now a lot more affordable for the smaller company. However, as this technology is put in place by the smaller company, a better and more expensive “mouse trap” in technology is introduced by larger companies starting the vicious circle for the smaller company to stay caught up. At least for now, there is technology in the industry affordable enough for the smaller company to offer some sort of technology although not as technologically advanced as the offering by its larger competitors.

OUTLOOK

New/Expanding Vertical Markets

Off-Duty Policemen – Our survey indicated that more customers are requesting off duty policemen to secure their premises. The customers perceive the police officers as better trained, especially when required to carry a weapon.

K-9 Offerings – Unlike the market about five years ago, this type of service is in high demand for canines with bomb-sniffing abilities, especially at airports. K-9s are also being used in public places and schools to detect weapons – a rapidly expanding new service for contract security companies. Several companies have just started this offering.

Companies With In-House Security Converting to Outsourcing

Companies providing their security in-house remain at approximately $15 billion, based on what they would have to pay at outsourced security rates. A study by our firm indicated that 60 – 75% of this market may be favorable for converting from in-house to outsourced security. The companies providing their security in- house are finding they can't keep up with what it now takes to protect themselves from all the aforementioned threats that evolved in just the past three years. The training is more expensive, and so is the investment in technology to supplement the security officer. The large, outsourced security companies such as Securitas and Allied Universal started several years ago investing heavily in the training and technology necessary to manage this more demanding area of security and are now reaping the rewards for their investment through an increased number of new customers that previously provided their security in-house. Many experts in the security industry are predicting the ratio of outsourced security to the total market will grow dramatically in the near future; although our recent survey did not reveal much of this is happening – yet.

Increase in requirements for Armed Security in Schools

While many states have ramped up their armed guard, or SRO, program, the most aggressive we found was implemented in Texas in September of 2023. As reported in "The Texas Standard" (Houston Public Media, Texas Newsroom), " the mandate was one of the Republican lawmakers' biggest acts following the Uvalde school shooting in 2022 that killed 19 children and two teachers". The mandate would allow the security officer to be an off-duty police officer, or a contracted guard. The article went on to say that despite the mandate, school districts are having a difficult time hiring the required security personnel. Some of the owners we surveyed indicated an interest in being a part of this significant increase in revenues, while others are sitting on the sidelines waiting for further instructions on its requirements.

RHPA comment: Just as the requirements for armed officers has increased dramatically, so has the cost of insurance to cover the liability associated with this type of offering. Many of the company owners we surveyed indicated no interest in taking on this new, large, vertical market.

OUTLOOK

CHALLENGES FACING SECURITY COMPANIES IN TODAY'S MARKET

State Unemployment Tax Increases Are Starting to Roll Out

Given the amount paid out during the pandemic, the state unemployment funds have been drained. The states will be assessing a higher rate to the companies operating in that state and the increase could be dramatic. Usually, states are about 18 to 24 months behind assessing the new rates from the time the funds start being paid out to the time of the increase in the rate. The state of California announced on May 09, 2023, through the Associated Press, that it would implement a large unemployment tax increase on employers to last a decade to raise money to pay the Federal government back for monies it received to keep paying laid off workers during the pandemic. The amount of the increase was quantified as explained in an April 18, 2024, issue of the Los Angeles times when it reported that . . ." Combining both state and federal portions, a new California employer, for example, would be paying about $500 in unemployment insurance per employee this year – almost double than during normal times. [RHPA note: the preceding seems to apply to new employers only, although it implies that all the companies will be paying significantly higher unemployment taxes].

Rising Insurance Premiums

All owners who participated in our survey noted a significant increase in both workers' compensation and general liability insurance rates, anticipating that this trend will persist into 2025. This aligns with the feedback from several insurance brokers and suggests that many insurers have either stopped covering certain high-liability vertical markets or only do so at significantly increased rates.

Predictive Scheduling

This challenge to the security industry was first introduced in our 11th Edition White Paper. Although there are very few cities that include security guard companies under the law, it still remains a concern that the law will spread across the country. Predictive Scheduling was originally passed in San Francisco in 2015, followed by the state of Oregon, making it a statewide mandate, as well as the cities of Philadelphia, Seattle, Emeryville (CA), New York City, and most recently - Chicago. The law was designed to assure the "quality of life" for the employees. It required employers to give the employee a certain number of hours/days' notice before changing the employee's normal work schedule. If violated, the employer would have to pay high premium rates for the hours worked "outside" the normal scheduled hours. The act went into effect in Chicago in July 2020. Chicago is the only venue we could find, so far, that has specifically included security services under its list of businesses required to meet the standards of the Act.

This Act is not only troubling for the owners of traditional manned guarding companies operating in the city of Chicago, but owners of manned guarding companies in other areas of the country are now concerned that their geographical coverage may be the next target for Predictive Scheduling. However, the states of Georgia, Iowa, Tennessee, and Arkansas have passed statewide legislation that forbids this type of ordinance, citing that such laws put the employers in that state at an economic disadvantage compared to other states that do not have this type of law.

When we interviewed the owners of select companies operating in the Chicago market, they reported that, even though the law is technically still in effect, they haven't seen any real enforcement of penalties imposed for violation given the current very tight labor market where the companies are struggling just to hire enough security officers to fill the open posts. However, it's believed that the law may become more stringent once the labor market improves.

Higher Inflation Rate Causing Uncertainty on the Movement of the Federal Interest Rate and Possible Recession.

As has been reported in almost all news media over the past several months, the inflation rate is easing from its unprecedented high level of around 8% a couple of years ago to around 3% now. The Feds got the inflation rate moving downward by raising the Fed borrowing rate from almost zero a couple of years ago to its present 5.25% —5.50%. The high-interest rate affects all individuals and companies relying on credit. If it stays high, it may cause a recession. If it's lowered too much, too fast, it may cause the inflation rate to start going back up, both of which negatively affects our citizens and companies (thus the owners of contract security companies).

Stronger Competition from non-traditional manned guarding companies

As mentioned in the "Technology" section of this white paper report, ADT, with approximately $7 billion in revenues, recently developed EvoGuard through ADT Commercial Company (ADTC). **EVOGUARD is a new suite of intelligent autonomous guarding solutions and services aimed at helping to cost-effectively enhance corporate security programs while responding to high turnover rates and ongoing labor shortages in the guarding market.** In late 2023, ADT announced the sale of ADTC to prior ADT executives and GTCR (a large Chicago based private equity firm) for $1.6bn.

GTCR manages over $25 billion in equity capital and has committed to additional investments in ADTC, rebranded as Everon, to implement a strategy to drive continued growth and innovation—thus possibly competing with manned guarding companies through their EvoGuard technology solution.

Johnson Controls (JC), with approximately $30 billion in revenue, announced the integration of its present C-Cure 9000 access controls and event management system with Cobalt Robotics' remote guard service. In announcing the move, JC said this about the new service, "As companies turn to technology to secure their facilities to keep employees safe, the integrated Johnson Controls and Cobalt solution can automate responses to major security incidents from breaches and break-ins to risks like open doors. **With businesses struggling to find security guards and keep costs under control, this integrated system is the way to automate alarm response at a substantially reduced cost.**

OUTLOOK

HEADWINDS TO WATCH FOR

Non-Compete Agreements.

As reported in our 15th edition White Paper, on January 5, 2023, the FTC proposed a rule banning non-compete agreements, which would make it illegal to:

- Enter into or attempt to enter into a non-compete with a worker (presently all the way to the top of the organizational chart)
- Maintain a non-compete with a worker
- Represent a worker, under certain circumstances, that the worker is subject to a non-compete.

Since the proposal, there's been a lot of discussion and attempts to change certain provisions. As reported by White & Castle Global Non-Compete Resource Center" on August 2024, the final rule was approved on May 7, 2024 and was slated to go into effect on September 4, 2024. The only major change from the proposed rule to the final rule is an additional exception allowing existing employer-employee non-competes for senior executives to remain in place. <u>However, a Wall Street Journal article, also in August, reported that a Federal judge in Texas "struck down" the regulation, leaving the ruling still widely challenged and is currently expected to be delayed or barred entirely</u>.

Expiration of the Targeted Tax Cuts & Job Act (TCJA).

In order to "fix certain concerns about the Federal budget deficit, lawmakers are considering letting the TCJA, or at least certain parts of it expire at the end of 2025. Below are some of the changes that would affect companies and/or owners of companies:

- Presently, the TCJA allows owners of partnerships, limited liability companies, and other so -called pass-through businesses ("S" Corporations) to escape tax on 20 percent of their income. This is subject to expiration,
- Presently, the profits of "C" Corporations are taxed at 21%. If this is part of the TCJA benefits left to expire, the tax on the profits of these corporations will go back to 35%.

OUTLOOK

HEADWINDS TO WATCH FOR

Mandatory Paid Sick Leave

This provision has been mandated in various forms and in many states for the past several years, but the most recent and probably the most *employee* favorable ruling, came in Michigan a couple weeks ago, to become effective February 21, 2025

In summary, the ruling states:

- Paid sick leave must be expanded to all employees, full-time, part-time and seasonal.
- Employees will submit leave time notifications "as soon as practicable", providing employees 72 hours of notice, intermittent leave time each calendar year.
- An employer can only require documentation after three consecutive leave days.
- Leave time can be used in the smallest increment that the employer's payroll system uses to account for absences.
- Employees can carry over sick time from year-to-year.

RHPA comment: will this very unfavorable employer rule be adopted by other states?

GLOSSARY

GLOSSARY OF TERMS

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

ABOUT US

ABOUT ROBERT H. PERRY & ASSOCIATES, INCORPORATED:

We have managed over 300 sell-side engagements for owners of privately-held companies located in 8 countries having revenue from $2 million to over $250 million.

We have consulted with Private Equity Groups in their bids for companies with revenues over $2 billion

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