

## COVID-19 and the Contract Security Industry



COVID-19

*Over the past 3 weeks, our country has experienced an unprecedented rise in unemployment claims and a dramatic drop in public stock values - signaling that the country is already in a recession and will probably go much deeper before pulling out on the other side. The contract security industry has long been viewed as recession proof or recession resistant. The few times the security industry has shown signs of softness in a recession, it recovered quickly when the economy started bouncing back. Businesses needed security even in periods of depressed revenue. But security companies are being affected differently in the economic environment brought on by COVID -19, which will be discussed later in this presentation.*

Fighting the COVID - 19 virus requires measures not previously used to protect our global community from an enemy we can neither see nor understand. The virus came on suddenly. No one knows how to cure it, or otherwise make it loosen its devastating hold on our country and our world. Typically our government would give businesses money to jump start their revenue. In this C-19 crisis, the government is having to make moves to proactively shut down our economy (which in turn is closing businesses) by restricting the mass gathering of people.

Here's what has been happening to our country recently as a result of the government having to take these measures to fight this nasty virus:

- An April 1st CNN article said,"6.6 million workers filed for their first week of unemployment

benefits in the week ending March 28 - a new historic high. Economists polled by Refinity had expected 3.5 million claims. A week earlier, 3.3 million Americans filed for their first week of benefits, which was the largest number ever at that time."

- As of the date of publishing this article (April 03, 2020), the medical community in the U.S. is predicting deaths related to COVID-19 will reach 200,000 or more; that is if everyone obeys the advice issued by the government to stay out of crowds and shelter at home, when possible.
- The Dow Jones stocks are down 8,000 points – about 30% off from its highest point of 28,000 just two months ago.

In order to turn these dismal figures around and help the businesses that suffer reduced revenue and people that become unemployed - through no fault of their own - our government has enacted several stimulus packages in an attempt to keep the businesses and their employees afloat.

### Stimulus Packages . . .

- Phase 1 (completed March 6, 2020): Provides for \$8.3 B for medical-related research and outbreak response efforts.
- Phase 2 (completed March 18, 2020): Provides for \$100 B for free coronavirus testing, paid sick leave, and food-related benefits.
- Phase 3 (completed March 27, 2020): Called the Coronavirus Aid, Relief, and Economic Security (CARES) Act and provides for a stimulus outlay of approximately \$2.2 T - the largest stimulus package in our country's history.
- Phase 4 (Possible): Congressional Republicans and Democrats indicated on March 28<sup>th</sup> that there could be a fourth corona virus response bill. However, they decided to wait a while before starting to draft yet another bill since they don't yet know the extent of the crisis and the problems coming from the Phase 3 stimulus that they will have to fix in the Phase 4 – signaling the strong possibility and probability that Phase 3 is rife with ambiguity.

***The CARES Act has several provisions to help the individual citizens***, not the least of which is the \$1,200 payment to every adult plus \$500 for their children so long as they meet the income requirements. And the good thing is that the citizens don't have to file to get the money. The government determines the payments from the income reported on the prior year's tax returns, then makes a direct deposit into the individual's banking account, if they have set up direct deposit instructions, or mails the check to their residence.

***The Act has many provisions to help the small business struggling in keeping their doors open during this time of crisis.*** It also has bail out provisions for the large corporations such as airlines and cruise lines that are greatly affected by the pandemic.

Below are some of the provisions available to businesses in general; and to certain ***qualifying*** contract security companies. However, the Act that sets forth these provisions covers 880 pages and there are a lot of conditions for receiving the loans/grants identified in the Act, some of which have the undesirable consequences of making the Federal government partners with, or equity holders of, the recipient –

especially monies given to the large companies. The Act was formally signed and made available to the public on March 27, 2020. Most of the funding provisions have limited (although very large) amounts available, thus require a quick response from the companies wanting to take advantage of the parts of the stimulus for which they qualify. We have found that most owners and executives in charge of making decisions for their companies are already in discussions with their advisors who have been busy absorbing the difficult language in the bill and identifying the many benefits, and pitfalls, both sometimes rather obscure in the language of the Act.

- Companies of a certain size (primarily under 500 employees) will be allowed a credit against its payroll tax deposits for payments to employees who are on family leave to quarantine themselves or look after a family member already diagnosed with the virus. This payment can last up to two weeks.
- Loans to companies primarily having fewer than 500 employees. Businesses in certain industries can have more than 500 employees if they meet applicable SBA employee-based size standards for those industries; however there's no clear guidance in the 880 page Act on identifying these industries. The loans can be as much as 2.5 times the average payroll, computed at dates before the economic downturn, and can be forgiven under certain conditions having mostly to do with the retention of employees after the date of the loan. Most traditional banks have the authority to process and pay the loans; and the application form is a short two pages. The instructions for filling out and submitting the form encourage the applicant to submit the form as quickly as possible since there is a funding cap on this section of the CARES Act and the lenders need time to process the loan (no indication of how long this process will take).
- Expanded unemployment benefits. The provision varies by state, but basically extends the state benefits by an additional 13 weeks and pays, in addition to the state benefit, the unemployed individual \$600 per week.

## COVID-19 and the Contract Security Industry

Over the past two weeks, I have been talking with executives of contract security companies all over the U.S. to find out how their companies have been affected by COVID-19 and their plans for getting through the crisis. The companies of the executives I talked with represented a very diverse revenue size and operating footprint sample. The companies were located in all parts of the U.S. and had revenues ranging from around five to several hundred million dollars annually. Overall, the companies are experiencing very little erosion of revenue so far, and many are actually picking up additional billable hours. Here is what they had to say:

- The companies that had a large presence in airlines, airports, cruise lines and hospitality sectors were seeing a very large drop in revenue. Some revenue will be recovered, but most of the revenue is lost forever during the time the country is basically being shut down.
- The companies with customers in the healthcare, distribution and local municipality sectors are experiencing a ramped up demand for extra coverage.
- The small companies with a high concentration in "moms and pops" type businesses (i.e.; small retail shops) are experiencing dramatic drops in revenue and are worried that it might not come back when the pandemic is over.
- The larger companies are experiencing decreases in billable hours for certain segments of their business, but it's being made up by increased hours at many locations where additional security

personnel is need for temperature checks, concierge and escort services, etc.

- Many mid-size and large contract security companies are filling requests from companies with in-house security to help backfill their own security force that is diminishing because of having to miss work due to being quarantined. Some of the contract security companies anticipate that this entry into the in-house market may continue and be an area of growth when the pandemic is over.
- **A concern:** Most of the companies are concerned about continuing challenges in filling posts. Even though the unemployment rate is rising, many of the laid off employees will not be looking for jobs - brought about by the very attractive \$600 per week unemployment subsidy [NOTE: it is anticipated that many states will still require weekly reports from the laid off employee proving that he/she is still looking for work; thereby jeopardizing this \$600 payment and making it less of an incentive to stay in the unemployed lines for an extended period of time].
- **A concern:** All the executives surveyed expressed concern over providing the security and not getting paid. They indicated that they will be watching their days receivables outstanding more closely and checking the credit ratings for new customers.
- **A report from Securitas, the largest security company in the world (as measured by revenue):**

Securitas, in its 2019 year-end message to shareholders, reported almost 5% increase in **organic growth** [10% increase in overall growth] over the 2018 year. However, in a report released on March 23, 2020, Securitas indicated projected declines in organic sales growth of 1.5 to 2.5 percentage points and .5 to 1.0 percentage points in margin for Q1 2020 resulting from the COVID-10 impact on its March revenues . . . a lot of this decline comes from its aviation sectors, which represent about 7% of its total revenues.

## **The Outlook – some of the lasting changes to the contract security industry brought about by the pandemic:**

- **The financial reporting will more closely scrutinize the ability of companies to survive the pandemic damage (if any), especially public companies.** The AICPA (American Institute of Certified Public Accountants) issued a statement requiring auditors to put in their year-end report to the shareholders their (the CPA's) opinion regarding the immediate and long term impact the COVID-19 will have on the financial condition of the company; its asset impairment modeling, its ability to meet its current obligations on a timely basis and even its ability to continue as a going concern. This will certainly have a chilling effect on the public companies that depend on its stock prices to attract investors and certainly its ability to borrow money.
- **The Contract Security Industry will see a paradigm shift toward increasing the integrated security component of its offerings.** Our society and business community will forever remember the hardships created by COVID-19. Those needing security will move toward being less reliant on humans to fill the security function, thereby enhancing the integrated security model. It's unclear at this point whether this means an actual decrease in the human component to providing security or just a shifting of the ratio of humans to technology; but the answer will certainly be played out in the coming months (years).
- **The contract security companies with the robust service offerings will be more appealing**

***to the in-house security market.*** Before the pandemic raised its ugly head, there were already signs that many of the contract security companies now have what the in-house market needs - more advanced technology, artificial intelligence, and the ability to manage a fluid security force. The challenges the companies had with their in-house force during the COVID-19; especially having to supplement that force through partnerships with contract security companies will likely create a permanent relationship lasting long after the pandemic has gone.

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For over 25 years we have successfully completed over 250 sell-side engagements for security companies located in 8 countries and having revenues between \$2M - \$200M.

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