

ROBERT H. PERRY
& Associates, Incorporated



ACQUIRES



Done Deal!

On April 6th, with all the approval hurdles finally cleared, Allied Universal bought G4S, putting an end to almost nine months of speculation over whether G4S would in fact be taken over and just who would be the successful suitor. The acquisition was historic: creating the largest security company in the world with sales over \$18 Billion coming from 85 countries making it almost twice as large as Securitas, its nearest competitor. Its 800,000 employees make Allied the 3rd largest employer in North America and the 7th largest employer in the world.

It all started around June of 2020 when the share price of G4S was depressed by the global pandemic; as were the prices of the stocks of most of the UK public companies. An October article in *The Financial Times* reported that “[UK equities] are now trading on the greatest discount to global equities for 50 years”. This low share price made G4S a prime take-over target by a financial group or one of its competitors. Garda World, a \$3 Billion Montreal based international privately held company, recognized this opportunity and made its first formal offer of \$4.2 Billion to G4S’s Board of Directors in October. Although the offer was a 31% premium over G4S’s depressed share price, the Board rejected the offer as being “highly opportunistic and significantly undervaluing the G4S business”. Garda would eventually increase its offer as mentioned below.

Allied Universal entered the contest in December and eventually submitted a \$5.3 Billion bid (a 68% premium over G4S’s closing price as of September 11, 2020); at which time the last offer from Garda was \$5.1 Billion. Allied’s offer was supported by the Board, but resulted in a controlled head to head auction starting on Monday, February 22nd, that was supposed to last a week. Garda dropped out the first day of bidding, indicating it was a disciplined buyer and would not “over pay” for G4S, leaving Allied with the winning offer, which went on to be approved by the majority of the shareholders.

The Acquisition Rationale

Initially, the G4S North America business (U.S., Canada and Mexico) will be run by the current Allied Universal structure in Santa Ana, California reporting to Steve Jones, Allied's CEO. The international businesses – all operations outside of North America – will be headquartered in London and led by Ashley Almanza, G4S's current CEO, for the first year of the transition and Tim Weller, G4S's CFO, will continue in his financial role for the International Business of the combined group for at least six months after closing.

The strength in numbers

- Before the acquisition almost all of Allied's approximately \$9.5 Billion revenues came from customer locations in the United States. With offices now in 85 countries, Allied can service many of its international customers globally without having to sacrifice profits through outsourcing contract work in these areas.
- Almost 50% of G4S's revenue comes from some level of technology offerings enhanced over the past 10 years through large financial investments; whereas less than 5% of Allied's revenues are from this service. The legacy Allied customers can now be offered more advanced technology that carries higher profit margins than traditional manned guarding services; while at the same time enhancing the service delivery to the customer.
- With 800,000 employees worldwide, Allied now has more bargaining power to negotiate better rates on health insurance, uniforms and, to a certain extent, workers compensation and liability insurances – even though Allied may be self-insured in some of these areas.
- In the U.S. where Allied is large and shares a footprint with G4S, many of the redundant office leases will be eliminated.

What the Purchase Means to Allied's Smaller Competitors

It's obvious that the creation of this mega company will be a game changer for the global security industry – especially its smaller competitors. Many of the competitors are already talking about the possibility of growing their company through the fall out of some of Allied's and G4S's customers that just don't want to be a part of such a large company where largeness usually means a diminishing of service levels. This will be true to a certain extent, but we're talking with owners that are also losing customers to the larger provider like Allied who can offer the service at lesser rates per hour since their service delivery cost is less in most instances, or they are offering integrated guarding services to include technology, resulting in the larger company making more money on a lesser bill rate than the smaller competitors in many cases. Some customers had rather sacrifice some personal attention (provided by the smaller competitor) in exchange for a break in the total cost for their security.

How much revenue will hit the streets? It will be a lot in the case of an \$18 Billion company. If Allied does everything right in transitioning the customers and employees and hits the industry average attrition rate of 8% - 10%, almost \$1 Billion of Allied's revenue will go away in the U.S. alone. An additional \$800 million - \$1 Billion of revenue will be leaving Allied in the foreign markets. AND adding to the challenge ahead for the Allied management; in total, Allied has to add about \$3 billion of new revenue just to show a modest 5% growth – the estimated conservative growth for the industry. Some of this growth will come from existing customers increasing their security menu to include the additional services Allied is now able to offer. Some will come from Allied getting heavier in the municipal and governmental sector by replacing local police forces and other governmental employees. And some of the new revenue will be coming from Allied's smaller competitors that can't offer the menu of services Allied can now offer coming primarily from the G4S' technology divisions.

Allied's End Game

Initially, Allied will delist the G4S stock from the London exchange, eliminating the millions of dollars it costs to adhere to the reporting requirements of a public company, then it will start making plans to go out for an Initial Public Offering when the timing is right in the near future. It will have the revenue size for a very successful offering assuming it can maintain a consistent and controlled growth trajectory.

On March 24, 2021, Allied announced the newly hired Global CFO, Tim Brandt, who will focus on the integration of G4S, as well as get Allied prepared for the eventual Initial Public Offering. Tim comes to Allied with a vast amount of experience in mergers and acquisitions and IPO's in his 30 years spent with Deloitte where he was the managing partner in the Orange County, California office.

Also, to better position Allied for a successful transition of G4S and continuing its commitment to growth, especially now, in the foreign markets, Allied hired Mike Beregovsky as Chief Merger & Acquisition Officer and Co-Head of Strategy & Investor Relations. Danette Perkins, previously VP of Acquisitions, was promoted to President of Mergers & Acquisitions for North America. Mike, who comes from Warburg Pincus, one of Allied's major shareholders, will also be leading Allied's global mergers and acquisition activities.

Allied Universal has a large financial commitment from its investors – having a lot of experience in the public markets.

As with all large acquisitions, most of the price being paid comes from debt instruments. In the case of this transactions, unverified sources have estimated that over \$4 Billion of the price is coming from borrowed money rather than outright cash from the equity group owners. This additional debt added to Allied's existing debt load makes Allied highly leveraged. But the two majority financial group owners are used to running leveraged companies and are no strangers to the public markets. Allied Universal is 80% owned by Caisse de dépôt et placement du Québec, which manages over \$350 Billion of investor funds and Warburg Pincus, which manages over \$70 billion of investor funds; and has Tim Geithner, the Treasury secretary under the Obama administration as its president.

Written by: Bob Perry

Sources:

- Website of G4S and Press releases
- Website of Allied Universal and Press Releases
- Files of Robert H. Perry & Associated, Incorporated
- "The American Prospect" March 17, 2021
- "Reuters" February 22, 2021
- "Security Matters Magazine" March 17, 2021

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.

The information in this article does not render legal, accounting or tax advice. Neither Robert H. Perry & Associates, Incorporated nor its employee, offer such services, and accordingly assume no liability whatsoever in connection with the use of the information contained herein. If legal, accounting, or tax advice is required, the services of a competent professional should be obtained.

© All rights reserved. May not be reproduced without permission.

ROBERT H. PERRY
Associates, Incorporated

[About Our Firm](#) • [Publications](#) • [Transactions](#) • [Contact Us](#)

Robert H Perry & Associates, Incorporated, 301 N. Elm Street, Suite 710, Greensboro, NC 27401,
U.S.A., (336) 272-2266