

FIRE AND SECURITY

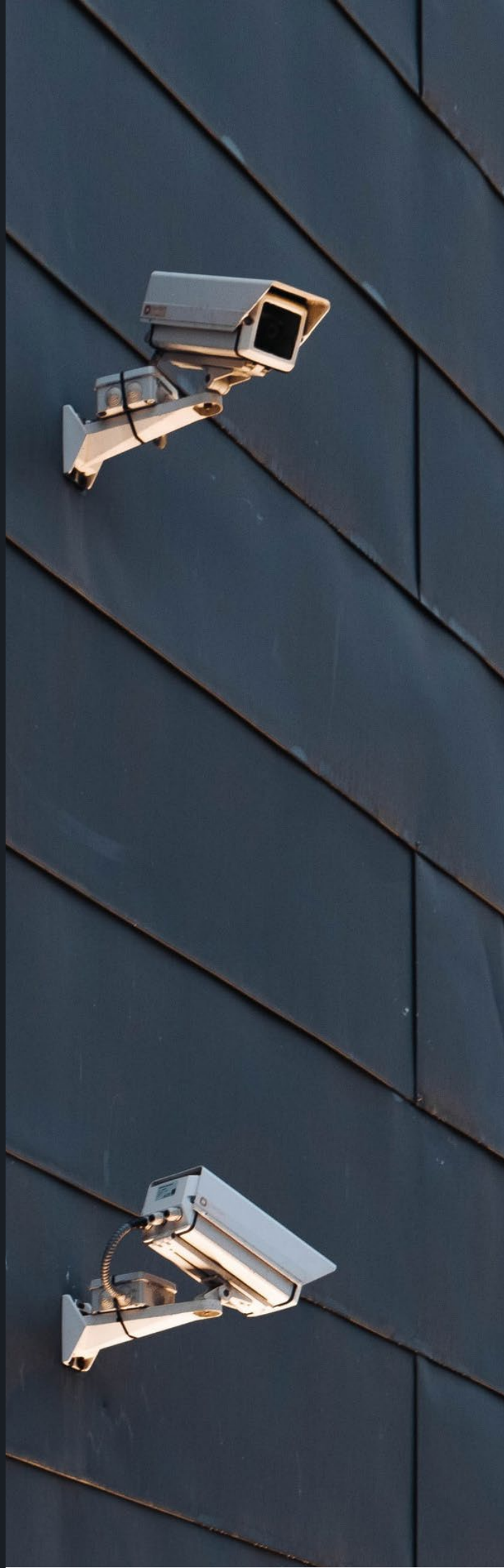
SECTOR INSIGHTS



LOCAL
KNOWLEDGE,
GLOBAL
EXPERTISE

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Market overview

Protecting ourselves against danger or loss is a fundamental objective for all of us, and companies that help to deliver that protection will always be in high demand. The building safety sector provides that vital service to companies and homeowners alike - often by way of the installation and maintenance of fire and security systems. This report explores some of the drivers behind that demand which in turn has led to significant mergers and acquisitions (M&A) activity. We have also canvassed opinion and insight from a few of our key sector contacts.

The UK's fire and security market is estimated to be worth £1.4bn and is forecast to grow to £1.8bn by 2025. This is expected to be fuelled by more stringent regulations and increasing demand as the drive for protection continues to rise. These drivers mean that the sector is continuing to be attractive for both corporate operators and private equity investors alike.

The Covid-19 pandemic impacted the sector to varying degrees dependent on the specific market segment. Those serving the residential market were heavily restricted from visiting their customers to carry out installations and maintenance services, but those working in the commercial space were classed as key workers given their impact on building safety, and hence were allowed to continue with minimum disruption. However, those operators focused on the design and installation of systems for new build construction projects tended to suffer to a greater extent as start dates were put on hold.



Fire alarms



CCTV



Automatic doors



Intruder alarms



Access control



Emergency lighting

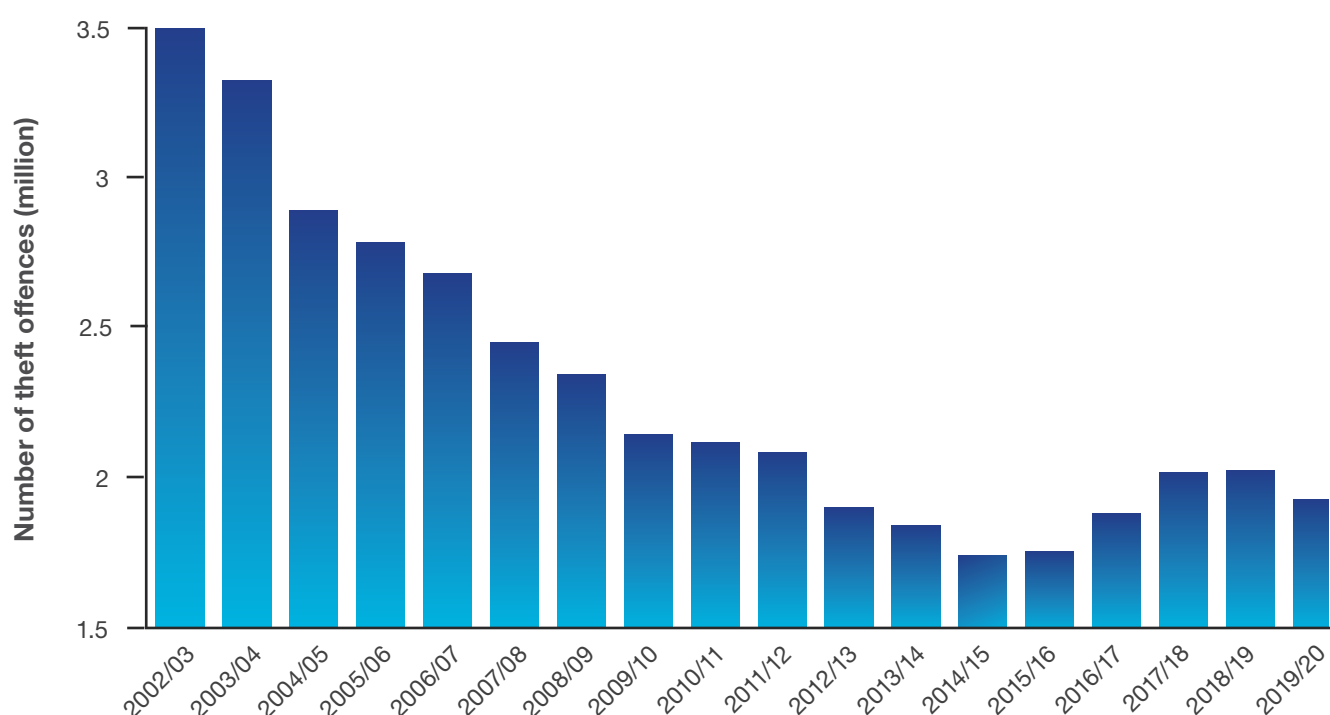
Demand drivers

Underlying demand for services in the fire and security sector starts from the basic premise that they are considered to be 'essential' given their connection to the protection of life and property. For the residential market, recorded crime rates – and the fear of crime – are a perceived measure of the risk to our property, which can influence the demand for security related products and services. Whilst police reported theft rates declined in England and Wales from 2002 until 2015, they have since begun to rise again. The slight fall in 2020 is thought to be an exception caused by COVID lockdown restrictions.

For the non-residential part of the market, more general threats to national security since the London terror attacks in 2005 have heightened demand from the public sector which has also trickled down to commercial businesses seeking increased protection and, in some cases, lower insurance premiums. In total, the commercial and public sector accounts for 86% of the total fire and security market.

Demand from large scale new-build residential construction tends to involve alarm systems which are not remotely monitored and are often installed by non-specialist electricians as part of the overall electrical installation. As such, they are typically lower value products and are not classified as part of the fire and security market in this context. Technological developments (notably wireless connectivity) have helped to generally raise consumer awareness and accessibility of security products, although again, these are often not remotely monitored or installed by specialists. The bulk of the domestic market is therefore defined as the service and maintenance of professionally installed and remotely monitored systems which make up 14% of the overall market.

Number of police recorded theft offences in England and Wales 2002-2020

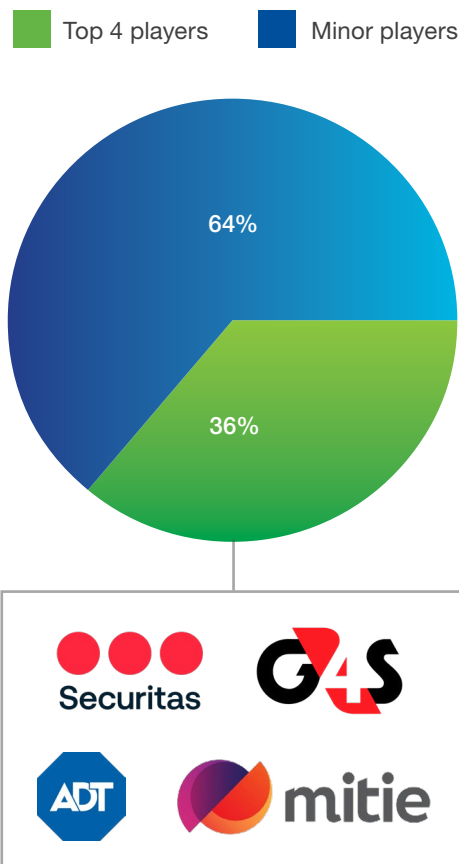




A fragmented market

One of the UK's leading trade bodies for the fire and security industry is the National Security Inspectorate (NSI) who have over 2000 accredited members. These members include the four major corporate brands ADT, G4S, Securitas and MITIE (who together account for c.36% of the current market), but are dominated in number by much smaller (often owner operated) businesses making the industry as a whole highly fragmented. Separate data from the ONS also shows that in 2020, over 90% of enterprises in the fire and security sector employed fewer than ten people.

UK fire and security market breakdown



NSI's typical member tends to trade from a single site across a restricted geographical footprint and can often be owned by former site engineers who decided to set up their own businesses. Whilst profitable, the majority are constrained by their size meaning that efficiency can often be compromised. Their value however lies in the bank of retained customers which is likely to be attractive to industry consolidators looking for increased scale. So, whilst the very smallest micro businesses are likely to remain lifestyle focused, a significant proportion of the remainder are likely to become targets for acquisition. Indeed, the lack of obvious succession within the employee base means that a retirement sale to a larger operator may well be the most obvious exit route for the owners.

Focused acquirers will also carefully assess the location of target companies as they look to gain market share in specific regions and broaden their geographical coverage. In turn, this will provide efficiency opportunities as duplicated overheads are rationalised and margins are improved. In particular, the use of route planning GPS software is now considered a vital tool to optimise engineers' travelling time and site visits.

Technology is taking over

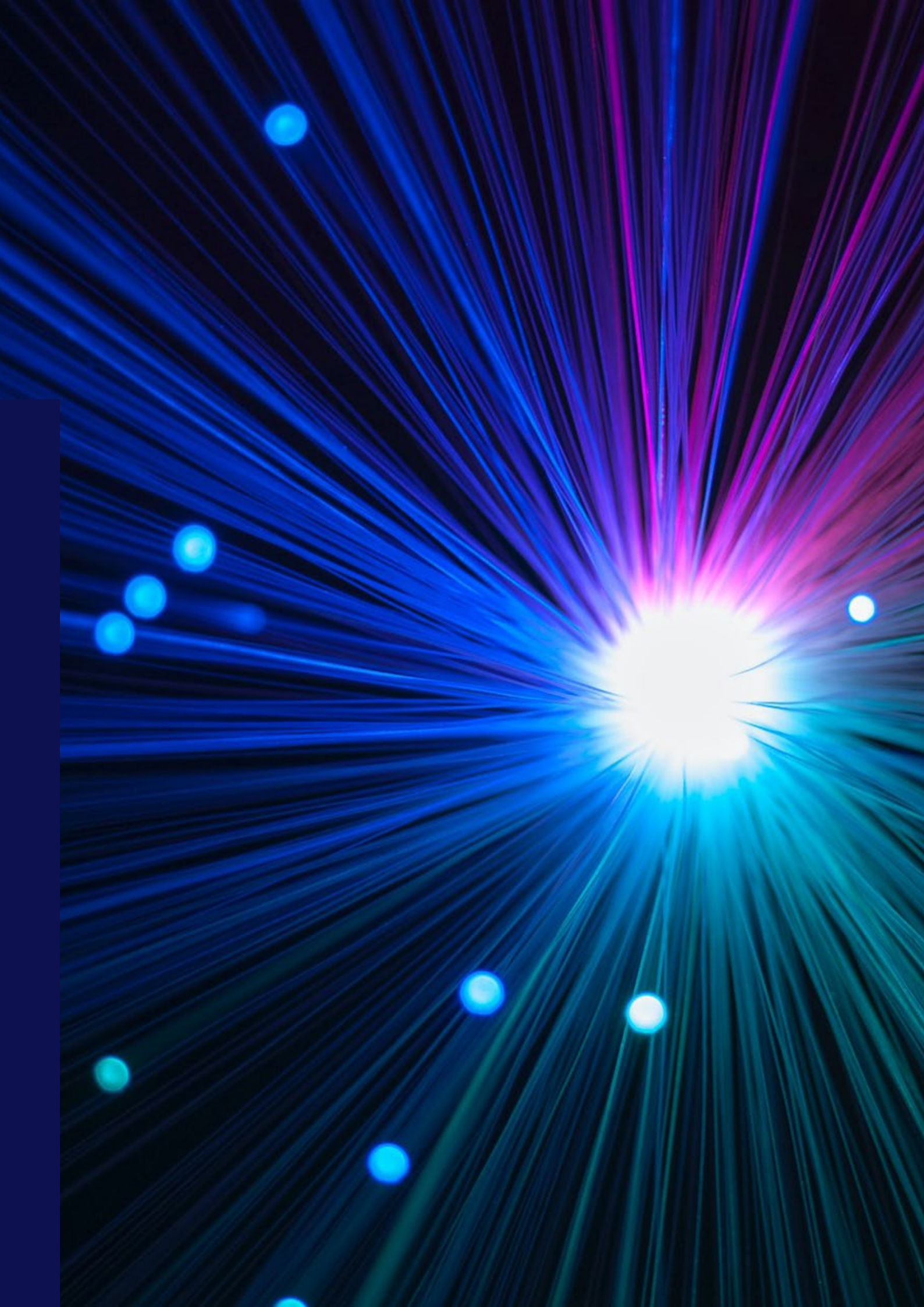
The fire and security sector comprises both the installation and service of a wide range of products which protect people and place.

Domestic installations have been transformed in recent times with the rise of wireless solutions for both alarm technology and CCTV. This has dramatically broadened the appeal of home systems whilst also making installations much simpler. In some cases, providers have also adopted a mobile phone style pricing model which comprises a low loss-leading installation cost, but with a commitment to a monitoring contract for up to 3 years to deliver the required profit. The global tech giants have also entered this market with Google's acquisition of the smart home brand Nest in 2014 for \$3.2bn, and Amazon's acquisition of Ring in 2018 for c.\$1.5bn. Separately, Google has invested \$450m in a stake in ADT thus enabling Nest to be integrated with their products. This has further raised consumer awareness of home security, and heightened the competition faced by traditional fire and security businesses.

Despite its consumer appeal, wireless technology is inherently less secure than traditional wired systems which continue to dominate the commercial sector. Business and industrial premises are also likely to have more complex needs in terms of the range of devices they require. In addition to a basic fire and intruder alarm system, there are often separate requirements for systems such as access control, automatic doors, emergency lighting and CCTV. Allied developments include the increased use of biometrics (fingerprint and facial recognition) for access control and Internet of Things applications. This technology links personal and other devices to a building's safety systems, and is becoming increasingly important in the care and retirement living sectors, for example.

In turn, this has driven the move towards fully integrated systems that operate over the customer's existing IT network, and which communicate with each other to provide greater building resilience. This infrastructure also allows for faults to be diagnosed remotely, reducing the need for engineers to attend site. The training and skills that engineers now need to install and maintain these systems have also evolved to have a more network / IT focus, rather than those of a 'traditional' electrician. The net effect of this change is that, whilst growing businesses will need to recruit fewer on-site engineers, the skills, qualifications and cost of those that are maintaining systems remotely are all trending upwards.

A large commercial business is likely to operate a range of building safety systems, which all fulfil specific needs but are often made by a number of different suppliers. Service providers therefore need to make sure that their engineers are multi-skilled and trained in the use of all systems to provide a one stop shop where all devices can be inspected in a single visit. This further reinforces the move towards converged, network-managed installations focused on safety and security alongside elements of access control, heating, ventilation, lighting and power control.



Investment by Key Capital Partners into Total Integrated Solutions

PKF Smith Cooper recently advised Total Integrated Solutions (TIS), a major mid-market fire and security integrator on securing investment from Key Capital Partners (KCP). After the deal, we spoke with their chief executive James Twigg to seek his views on the deal and his observations on the market:

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“I instantly warmed to KCP as they clearly understood what differentiates TIS from our competitors. Our constant focus on providing a premium service to our customers means we enjoy excellent levels of repeat business. We are not looking to compete on price and the way that we build trust by delivering exactly what we quoted for with experienced and motivated staff really pays dividends. KCP saw this as a great foundation for future growth which they are now helping us to deliver.

TIS are also actively involved at the design stage of a project. Our strategy is to provide a converged solution using our own integration platform which ensures that all of the customer's systems communicate with each other and the entire installation can be serviced by one engineer – even if they are made by different manufacturers.

We are still seeing good growth opportunities in our chosen markets with a particular focus on retirement living, education and public space CCTV. We would also be very keen to look at acquisition opportunities – provided that they can match our own high quality standards.”

Investment by Phoenix Equity Partners into Spy Alarms

In 2020, Phoenix Equity Partners invested in Spy Alarms, a south-east based business providing fire and security services to both commercial and residential customers. We spoke to Chris Neale, who led the investment for Phoenix and now sits on the board of Spy:

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“We saw a great opportunity to invest in Spy who had already been highly acquisitive in what remains a very fragmented market. Spy also had a well balanced portfolio of customers split between residential and commercial. Since we invested, we have supported the CEO to maintain their growth by completing a further five acquisitions and the business now has a turnover run-rate of c.£18m.

We have a buoyant pipeline of further acquisition opportunities and have now recruited a dedicated M&A director to further accelerate our acquisition activity. Our focus is on acquiring businesses making profits of >£250k per year with strong levels of recurring revenue. We work hard post deal to welcome new staff to the fantastic culture at Spy and for clients we look to improve the quality of services they receive. We make increasing use of technology and journey planning software in particular to optimise the responsiveness of our engineers.”



A recurring theme...

Investors will always be attracted to sectors where future revenue can be predicted with reasonable certainty. The fire and security sector provides this visibility as customers are typically required to enter contracts for periodic maintenance checks. These contracts are usually for a minimum term of one year, and for some operators, these contracts will account for over 50% of their total revenues.

Revenues that are contractually underpinned provide the foundation for businesses to grow and invest. If delivered effectively, they also help to enhance customer retention which creates future opportunities for selling in upgraded hardware and devices, as technology advances and products become obsolete.

Routine service work can often deliver strong profit margins as work is priced on a per visit basis and replacement parts will be separately chargeable. Modern hardware can also be remotely accessed thus reducing the time taken to carry out the work. Where site visits are required, the larger service operators can derive significant economies of scale and higher engineer utilisation rates from the use of planning software, which helps to optimise routes and reduce journey times.

Regulation

The fire and security sector is heavily regulated which offers a further attraction for investors. Service providers will advise customers on the importance of being able to demonstrate regulatory compliance on a regular basis which inevitably helps to drive and sustain demand. In certain applications and industries there are also requirements for calibration and certification of specialist monitoring devices for which the provider must be independently accredited. This further cements the way in which fire and security businesses generate reliable and recurring revenue.

Fire safety in England and Wales is regulated through The Regulatory Reform (Fire Safety) Order 2005 and in Scotland it is regulated through the Fire (Scotland) Act 2005 and the Fire Safety (Scotland) Regulations 2006. These pieces of legislation provide a framework for regulating fire safety in all non-domestic premises.

Following the Grenfell fire disaster in 2017, an independent review of fire safety was ordered which found that the regulations were not fit for purpose and needed reform. As a result, the Fire Safety Act 2021 was introduced as an amendment to the existing legislation. The main amendments ensured that fire risk assessments and safety strategies included a building's structures and external walls. This included doors, windows, balconies and any other exterior wall structures (e.g. cladding).

Security service providers must also comply with Private Security Act 2001 and those working with public CCTV / surveillance must have a Security Industry Authority (SIA) licence. In addition, adhering to ISO/IEC 27001 (an information security standard) is not a requirement for firms but is considered evidence of best practice.

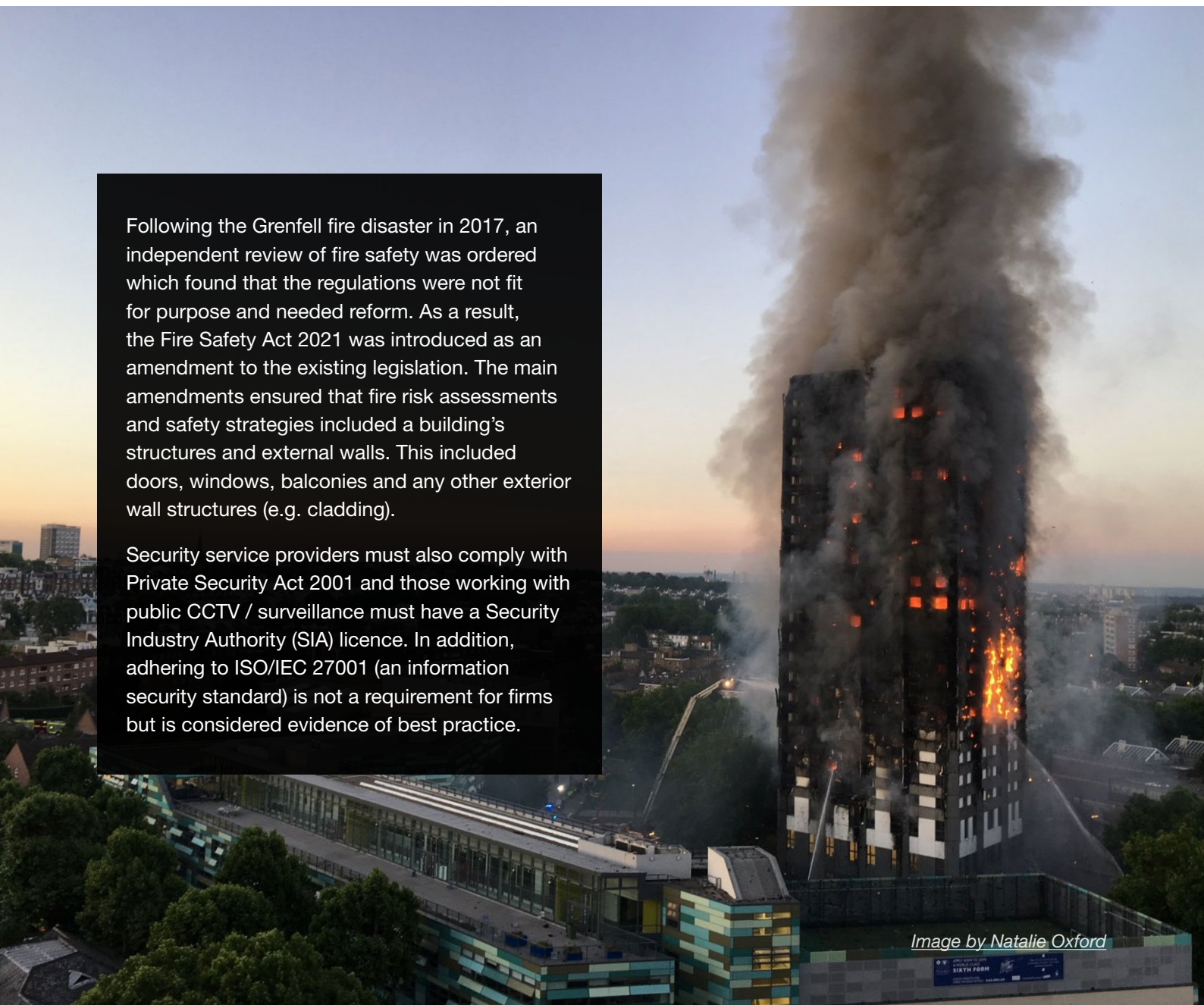


Image by Natalie Oxford

The M&A outlook

Our UK research has identified 36 headline M&A deals in the fire and security sector in the last 3 years. Of these, over 40% were funded by private equity directly or indirectly. The businesses involved range from manufacturers of hardware and other devices to those who install, maintain and service fire and security systems.

Halma plc have continued to be the stand-out buyer of specialist technology and devices businesses within the sector having acquired seven businesses globally since 2019. The transactions

involving service-led businesses have tended to be dominated by private equity, given the attractions of regulation and recurring revenue as previously outlined. As well as those deals where details have been published, we are aware of a number of other smaller 'off-market' transactions by market consolidators, led by Churches Fire (backed by Horizon Capital) and Spy Alarms (backed by Phoenix Equity Partners).

December 2019

Verisure Holding AB (subsidiary of Securitas) acquired the European operations of Arlo Technologies

December 2019

Foundation Investment Management Partners LLP invested in Senseco Systems Ltd

September 2020

Phoenix Equity Partners Ltd invested in Spy Alarms Ltd in a management buyout

December 2020

Halma Plc acquired Static Systems Group

January 2021

Rockpool Investments LLP provided acquisition funding to EA-RS Group Ltd

February 2021

LDC purchased a minority stake in the management buyout of Wireless CCTV Ltd

April 2021

Key Capital Partners made a significant investment in Total Integrated Solutions Ltd

May 2021

Warburg Pincus LLC alongside Macquarie Group Ltd made major investments in Premier Technical Services Group Ltd

May 2021

Cambridge Capital Partners Ltd, Trimountain Partners LLP and Vorsprung Partnership engaged in the management buyout of ABCA Systems Ltd

June 2021

Synova Capital LLP acquired a majority stake in Orbis Protect Ltd

June 2021

Marlowe Plc acquired Alarm Communication Ltd



Looking ahead, we see the fire and security market continuing to grow whilst offering strong potential returns for investors. The market remains highly fragmented meaning that consolidators will still be seeking targets in strategically advantageous locations to deliver their growth plans.

Developments in technology and increased potential for integration will allow installers to sell new hardware and services, whilst the recurring revenue from service contracts will continue to provide reliable high margin returns.

Across the UK economy, with the expectation that Capital Gains Tax rates are likely to increase towards Income Tax levels, this is likely to act as a catalyst for some fire and security business owners to consider realising their investment and take advantage of the high number of consolidators in the sector. Owners will benefit from competitive tension in the market placing upward pressure on strategic premiums for the right assets.

Recent global events have also injected high levels of uncertainty into the economy and severe inflationary pressures tend to suggest that business valuations may well fall back in the near term. This may act as a further trigger for business owners to actively consider their exit options at an early stage.

November 2021

Protec Fire & Security Group Ltd sold to Bosch Building Technologies

January 2022

Chubb Fire & Security Ltd was sold to APi Group Corporation

August 2021

LDC invested in Texecom Ltd

December 2021

EA-RS Group Ltd (backed by Rockpool Investments LLP) acquired Crane Communications Ltd

August 2021

Halma Plc acquired the Ramtech group of companies

About PKF Corporate Finance

At PKF Corporate Finance, we start by thoroughly understanding your objectives and business issues before creating highly flexible, innovative solutions that fit your needs.

We deliver practical, commercially-viable advice with positivity, and tenacity. We strive to deliver exceptional service quality, irrespective of the size of the deal, by building close relationships with clients, keeping them well-informed and providing a proactive service to guide them every inch of the way.

The Corporate Finance team regularly features as one of the most active dealmakers in the UK whilst consistently delivering the highest quality service; this has been recognised by many industry awards, and is evidenced repeatedly in client testimonials.

Our Sector Insight report is a condensed summary of activity provided as a service by PKF Corporate Finance. Professional advice should always be taken when making any investment decisions.



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