BY DAVE SYLVESTER, PSP

Two-for-One EAC Opportunity: Grow EAC Sales and Increase Business Value

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At the recent DHI conNextions in Baltimore, we were introduced to PSA as an organization that can help DHI members grow electronic access control capabilities, a developing application of managed access control solutions, and a workshop that I led on business transitions and valuation. This article is an attempt to link those thoughts for those who attended and stimulate ideas for those who did not.

We do not need to spend time on validating growth of Electronic Access Control (EAC) systems; however here is a quick summary for context:

- Manufacturers consistently report double-digit growth of EAC products vs. mid-single for mechanical.
- Persistence market research forecasts that demand for electronic locks in the commercial market is projected to expand at a 14.5 percent compound annual growth rate (CAGR) through 2025.
- The majority of EAC applications are less than 10-door systems, which fits DHI members.
- Rapid growth in home automation and security systems will drive commercial facilities also.
- Openings with access control are still less than 10 percent of all openings in the market, which indicates enormous upside.

NEW WAYS TO ENTER AND GROW THE EAC ELEMENT OF A DHI MEMBER'S BUSINESS

Bill Bozeman, CEO of PSA, the world's largest EAC product consortium, presented at the DHI 2018 conNextions conference. As Bill explained, membership in PSA can be an excellent way for a company in the early phases of access control development to get access to all brands and products, become part of a national referral network, benefit from attractive payment terms, and tap into PSA's education program, with more than 1,500 on-demand training programs and resources.

Bill reinforced that the majority of EAC systems are less than 10 doors and discussed the idea that creates part one of the two-for-one opportunity—selling and servicing cloud-based, managed access control systems.

Access Control as a Service, ACaaS, is part one of the two-for-one opportunity. EAC as managed service was introduced by Brivo's Steve Van Till 10 years ago. Steve Van Till is a highly-regarded visionary of where IoT is headed and how security applications will evolve in the future, and has positioned Brivo as an industry leader. I remember the first ISC West show where Brivo exhibited; I was scratching my head about the entire idea. Now, managed access control is going mainstream, and riding the larger cloud-based "everything as a service" movement.

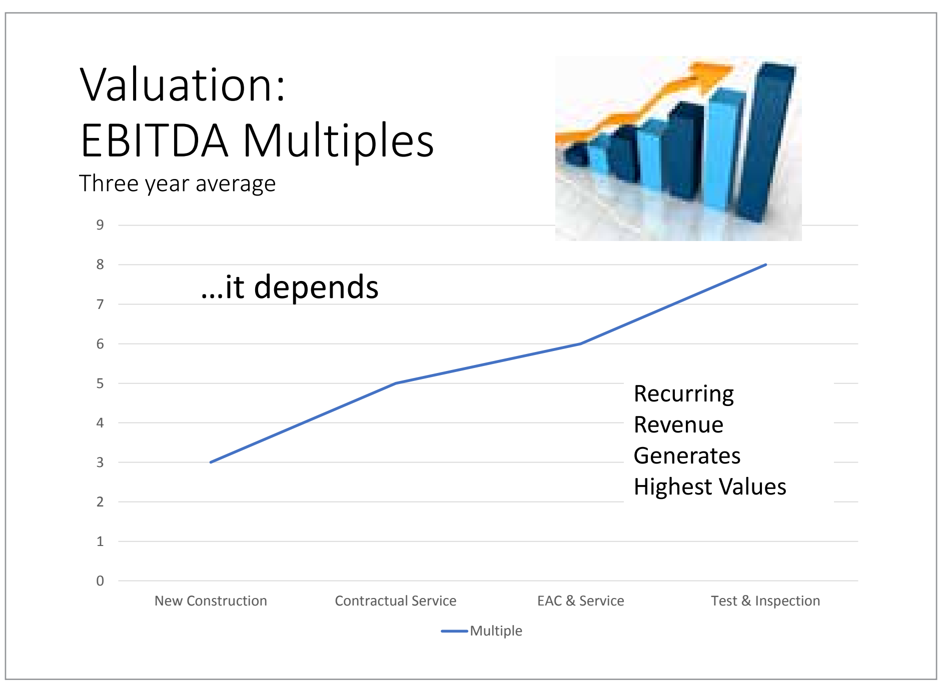
In my first quarter 2018 industry update, I referenced a statement from Imperial Capital who sees a strong outlook for access control as a service. According to a February 2017 report by Global Industry Analysts, the global market for ACaaS is projected to grow nearly 25 percent per annum, reaching $629 million by 2020.

Several companies offer a cloud-based access control system that is perfect for the door and hardware distributor wanting to grow the EAC element of their business. These systems are designed for smaller applications, which again, is the largest part of the market. The managed service aspect, or contractual recurring revenue, absolutely creates value in the providing business.

Companies leading the way with managed access control include 3X Logic, Brivo, Fennics and Kantech. Any of these companies would be excited about developing a relationship with a DHI member.

RECURRING REVENUE BUSINESSES ARE MORE VALUABLE THAN PROJECT-BASED BUSINESSES

I led a workshop at conNextions entitled *Business Ownership Transition: Realize the Optimal Outcome*. The workshop was based on my real-life successful and unsuccessful business transitions over the last four years. I addressed how a business's value is viewed by the seller and conversely by the buyer. We covered the ownership transition process and ways to optimize the outcome. We also focused on the number one question asked about business valuation—what is the right Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) multiple for my business? And as I said at the conference—it depends.



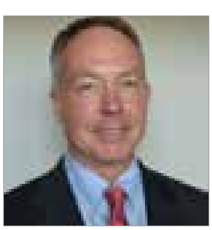
The right EBITDA multiple depends on many factors: the size of the business (revenue), level of profitability, the historical financial performance, local or regional market dynamics, the depth of management team, and so on. The basis of valuation, though, is confidence in future cash flows.

It follows that a business focused primarily on new construction is more likely to ebb and flow with the construction market. In contrast, a business that has a high service content, especially contractual service business, is less impacted by construction cycles. The ranges of EBITDA valuations can range from three times for new construction focused businesses, to high single digit multiples for recurring revenue/service businesses.

An important element of contractual service business is the actual contract. Many of the integrators and alarm dealers I work with have significant amounts of contractual service and monitoring revenues but often have been lax with the quality and upkeep of their contracts.

Many of the buyers will leverage these contracts like equity, and lenders will lend money based on the value and quality of the contracts. Unfortunately, I too often see thousands of dollars and accounts of contractual service without a signed contract. For those accounts, lenders attribute zero value. Therefore, if you are considering creating an ACaaS business element, make sure that the customers sign solid industry-approved contracts.

As I wrapped up the DHI conNextions workshop, I tried to make the point that whether you intend to sell the business or not, focus on creating value. Building a strong EAC component of a security business will ensure long-term sustainability and positioning for growth. Adding a contractual service element like ACaaS will reduce the cyclicality of income and, without a doubt, increase the value of the business. +



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