

SECURITY SYSTEMS NEWS

The Art of the Security Deal: Loud, Bitton, Duffy and Cerasuolo talk navigating the acquisition landscape



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YARMOUTH, Maine—From first meetings with a prospective seller to closing on the final deal, navigating the complicated acquisition landscape can be daunting. That’s why Security Systems News asked four residential companies who are active acquirers—LOUD Security, ADS Security, Per Mar Security Services and Supreme Security Systems—to provide an inside look at what it takes to get a good deal done.

Per Mar Security Services president Brian Duffy told SSN that for super-regional companies like his, “geography is a major thing,” he said. “We very much focus on the Midwest, so the companies that we talk to the most in our markets are right around us, and have a stable base of monitored accounts that they have taken good care of over the years.”

LOUD Security president John Loud concurred. “If it doesn’t fit within our predominate footprint, which is the Atlanta marketplace, it probably doesn’t make sense,” Loud said. “I had someone ask me if I was interested in 1,100 accounts from a company in the Chattanooga, Tenn.-area, which is only about an hour-and-a-half drive from here, but I said no to the deal because now it starts to stretch me into another state, and another state’s licensing, and the Department of Revenue and sales tax and incorporations,” he said. “We have a lot of good things developing here in Georgia; to overcomplicate it is not my desire.”

Supreme Security CEO Robert Bitton said it’s important to ask: “Would this be a fold-in that would not require operating a remote office, or, if it would, would there be sufficient cash flow to justify the remote office?”

Loud said that he has resisted the temptation to open two or three branch locations in Georgia, because “it is all about density per square mile,” he said. “How can I be stronger within my footprint fill, and have that density per square mile

where my subscribers are? So now, when I deal with service calls, new installs, for example, the quality of life of the rest of my team becomes better or manageable.”

Dealers all agreed that doing your due diligence prior to closing is imperative, including asking all of the right questions of prospective sellers, from what their attrition rates are to whether or not all of their accounts are in good standing.

“What do you know about their account base (commercial versus residential), the quality of the installations, rates charged for monitoring and service (too low or too high?), frequency of past rate-increases and has their 2G to 4G conversion been completed?” said Bitton. “Also, what is the company’s overall reputation in their territory, and how will the quality of your service compare with the quality of the service they have been receiving?”

Duffy added, “We are not really interested in a turn-and-burn type customer base where someone has a high attrition rate. We want someone with a really stable group of customers, just like our own. Having a customer service focus is very important to us as well.”

Dealers said that they have come to realize through experience the benefit of sorting things out before the transaction as opposed to after the deal closes.

“One of the things that you don’t want to find out later is that the seller may have thought that all of the accounts were on a swing-able line but they weren’t—and that is a bad day,” noted Loud. “So you need to verify things, such as attrition rates, to make sure the seller has given you an accurate number, or can back-up their statements with proof.”

Loud also said it is important to validate the seller, do a lien search on the selling company and parties, and find out as much as you can about the company.

"You can tell right away about a company from initial meetings and the types of reports they keep and practices they adhere to," said Loud. "If someone gives away free service calls, for example, they are probably not running their business that well, because they don't realize service is not free."

Early discussions with the seller, provide "a feel for how they run their company," Loud explained. "And by the time we are ready to make a letter of intent offer and figure out that multiple, we have already identified what type of cleanup we are going to have to do. Do they have good paperwork? And in the paperwork, do they have all the right contract clauses? Am I going to have to repaper them? If the lines not swing-able, I am going to have to get them all on one contained line. So these are all costs and are going to cause me to roll a truck or create a process to protect myself liability-wise."

Bitton agreed that it is important to find out if the company owns the phone lines into the central station.

"If not, are the panels downloadable, or is a site visit required for each conversion?" he explained. "And, if that is the case, are the installer codes known for each panel? And in the worst-case scenario, if you have to change out the panel, is a like panel available, or do you have to change keypads and other items also?"

Bitton pointed out that a dealer should also determine if there is a valid contract in existence for each customer, and if the contract is assignable without consent of the customer.

"For each residential customer, was the customer advised of their three day right of rescission, and provided the appropriate form to send to the alarm company if they wished to exercise that right?" said Bitton. "Also, how much has the company charged for time-and-material service, and how has that compared with your current rates? And, how diligent has the company been to bill the customer when appropriate?"

Once a prospective company has been identified, ADS Security president John Cerasuolo told SSN that it is important to have a plan in place to convince the company you are a good fit for them.

"One of the interesting things that we have realized is that we use our former sellers, the owners who have sold their

companies to us—many who have joined the team, and some who have retired—to talk with sellers, and they can end up being our best salespeople," Cerasuolo said.

The objective is for the seller to have a great experience and be willing to help share his experience. "For sellers, that really is a powerful thing to talk to someone who has been through the process and can share some of their experience of how they were treated and how the people were treated," he explained.

All four executives agree that staff is one of the most appealing aspects of a deal.

"When it comes to acquiring quality staff through an acquisition, we truly jump for joy if that is an opportunity," said Loud. "We almost did an acquisition this year where we were looking at a deal that would give us about 30 staff members. Although we ultimately could not get it worked out, we wanted this acquisition more for the people than we even cared for the subscriber base, even though it was going to cause me to have another branch location."

"Anyone who has a strong group of employees—that is very attractive," added Per Mar's Duffy. "It is not easy to find good people."

To get that quick acceleration of employees who know the industry—the install side, sales side, operations and billing—can be a huge asset for a company.

"That actually adds value to the acquisitions for us," said Loud. "I would be willing to pay even a little bit more if I knew I was getting some technicians with that deal. As anyone knows in this industry, it is tough to hire, train and retain folks."

Bitton added, "If there is an experienced sales staff in place, I would very strongly consider bringing them aboard and possibly enough installation technicians to handle the additional sales that should be generated. Remember that for each additional block of accounts you add, the attrition dollars will increase and you will have to generate more new RMR to replace it."

As with life, dealers said that in the world of acquisitions, patience can be a virtue.

"We meet some sellers who we know we are a great fit with but are a few years away from being ready for a transaction, so we

work very hard to stay in touch with them, and to stay connected and help them out and become partners with them,” explained Cerasuolo. “We are very patient, and if it takes five years it takes five years, but we are going to be there when the time is good for them.”

Duffy said that Per Mar also tries to stay in touch with all of the companies that would be potential acquisitions.

“Good acquisitions don’t come around that often—they are pretty rare opportunities—so we really work with the seller to make sure that we are accommodating the timing and what is going to be best for them,” said Duffy. “They are only going to be doing this one time and we try to do this two or three times per year, so we try to work within their schedule.”

To win over prospective sellers, Duffy said “it is important to help them understand that we really are the best home for their customers,” he said. “If they are not going to be around, they almost always want some who they can trust to provide that same level of customer service.”

For companies that may be new to the acquisition game or about to make their first acquisition, Duffy said, “It is very useful to rely on some of the industry peers you know who may have done a lot of acquisitions, because there are lots of details that are very important.”

Bitton added, “Make sure that your due diligence is as thorough as possible,” he said. “Employ experts that have demonstrated solid knowledge and experience in alarm company acquisitions, especially the attorney you select.”

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