

Security Finance Newsletter

September 2016

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Volume XII, Issue 3

2nd/3rd QUARTER MERGERS & ACQUISITIONS

Buyer: OPENGATE CAPITAL

Seller: ROYAL BUILDING PRODUCTS' window and door profiles division from **AXIALL CORPORATION**. They're based in Ontario, Canada and have over 900 employees.

Buyer: AXIS COMMUNICATIONS

Seller: COGNIMATICS is a video analytics company. They are based in Lund, Sweden and have 12 employees.

Buyer: SYMANTEC (Nasdaq: SYMC)

Seller: BLUECOAT is a provider of web security with fiscal year ending April 2016 GAAP revenue of \$598M. They are headquartered in Sunnyvale, CA.

Buyer: ACCENTURE (NYSE: ACN)

Seller: MAGLAN is a cybersecurity company with headquarters in Tel Aviv, Israel.

Buyer: COMCAST & ALARM.COM

Seller: ICONTROL NETWORKS sold their **CONVERGE SOFTWARE** platform to **COMCAST** and their **CONNECT** and **PIPER** business units to **ALARM.COM**. Converge is based in Austin, Texas and is a home security provider. Connect is based in Redwood City, Calif., and provides an interactive security and home automation platform. Piper is based in Ottawa, Canada, and is a DIY Wi-Fi-enabled video and home automation hub.

Buyer: CISCO (Nasdaq: CSCO)

Seller: CLOUDLOCK, INC. is a cyber security solution based in Waltham, Mass.

Buyer: SEACOST SECURITY, INC. is an alarm monitoring company.

Seller: Seacoast acquired the accounts of **MAIN SECURITY SURVEILLANCE** which was a subsidiary of **PSB.COM**. Main Security is based in Augusta, Maine.

Buyer: FLIR SYSTEMS (Nasdaq: FLIR), based in Wilsonville, Oregon, designs, manufactures, and markets sensor systems.

Seller: ARMASIGHT, INC. is a developer of precision sporting, hunting, and military optics products. They are based in San Francisco.

Buyer: PER MAR SECURITY SERVICES

Seller: NEIGHBORHOOD PATROL, INC. is based in

Davenport, Iowa and is a guard and patrol company.

Buyer: ADS SECURITY is a super-regional security and automation company.

Seller: ALARM SPECIALISTS is based in Cocoa, Florida.

Buyer: HID GLOBAL

Seller: DEMOTELLER is a provider of instant issuance solutions for the financial market.

Buyer: CAROLINA SECURITY GROUP (CSG SECURITY) is an aspiring super-regional.

Seller: INTELLIGENT TECHNOLOGY is an alarm company based in Charlotte, NC with \$2- to \$3 million in revenue and \$35,000 in RMR.

Buyer: SELECT SECURITY is a super-regional security company.

Seller: 5 STAR SECURITY is based in Blument, VA and is an alarm company.

Buyer: TITAN ALARM

Seller: GIANT SECURITY SYSTEMS, INC. is an alarm company based in Phoenix, AZ.

Buyer: B SAFE SECURITY is a provider of security and fire alarms.

Seller: EYES ON YOU SECURITY is based in Bear, Delaware

Buyer: DOYLE SECURITY SYSTEMS is an alarm company.

Seller: MURPHY'S ALARM AND LOCK is based in Syracuse, NY and is an alarm company.

Buyer: SECURITY CENTRAL is a wholesale monitoring center.

Seller: LOSS PREVENTION SERVICES is a wholesale central station headquartered in Clemmons, NC.

Buyer: SCANSOURCE, INC. is a provider of technology products and solutions.

Seller: INTELISYS COMMUNICATIONS, INC. is a technology services distributor of business telecommunications and cloud services.

Buyer: FIDELITY SECURITY GROUP is Southern Africa's largest integrated security solutions provider.

Seller: TYCO (NYSE:TYC) is selling its South African Security Business. In fiscal year 2016 the segment is expected to generate revenue of USD 160 million.

Buyer: ACCENTURE (NYSE:ACN)

Seller: REDCORE is a consulting business that specializes in providing identity and access management services (IAM), as well as security services. They are based in Melbourne, Australia and have approx. 130 employees.

Buyer: JVALLEY SOFTWARE SOLUTIONS is a distributor of video management software (VMS) in the Middle East and North Africa region. They are based in Jordan.

Seller: LENSEC is a manufacturer of VMS that is headquartered in Houston, Texas.

Buyer: L3 COMMUNICATIONS (NYSE: LLL)

Seller: MICREO LIMITED is a specialized Electronic Warfare subsystems provider in Australia with approximately 70 employees.

Buyer: ELECTRIC GUARD DOG is a provider of electric fencing and perimeter security.

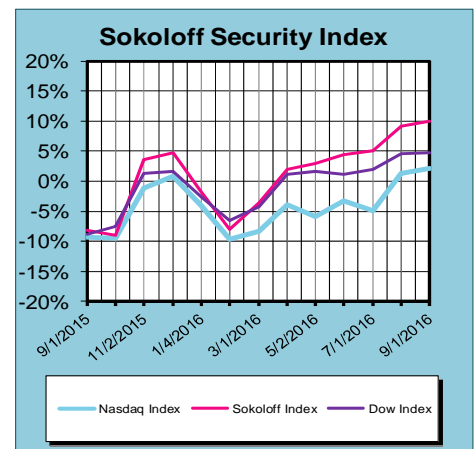
Seller: PERIMETER SECURITY SYSTEMS has 180 locations, mainly concentrated in North Carolina, South Carolina and Georgia.

Buyer: VANDERBILT is a provider of security systems.

Seller: ACCESS CONTROL TECHNOLOGY LTD. designs and manufactures access control and video management solutions and is based in Dublin, Ireland.

Buyer: OSI SYSTEMS (Nasdaq:OSIS)

Seller: AMERICAN SCIENCE & ENGINEERING, INC. (Nasdaq:ASEI) is a provider of detection solutions for advanced cargo, parcel, and personnel inspection. They have 245 employees and are based in Billerica, Maine.



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AN INTERVIEW WITH PHIL LAKE, PRESIDENT KNIGHT SECURITY SYSTEMS

This quarter, Sokoloff & Company interviews **Phil Lake, President of Knight Security Systems**. Knight is a provider of security systems solutions covering access control, video and alarm systems integration, monitoring, and service. They work in many vertical markets and have installed over 5,000 systems since 1983.

What is your background ?

I have a finance degree and started life as an accountant. I discovered early on that I hated it! Luckily, I was fortunate enough to be working as Controller for Canada's **Honeywell Commercial Division**. I was good at my job and bugged the hell out of my boss to give me a new opportunity. He made me a branch manager in the Atlantic Region. After that, I found my niche. I turned around a couple businesses in the Western Region then I moved into the security division, took over a company that was struggling, and got that moving.

I began to be known as a "fix it guy".

After Honeywell, I went to **Chubb Canada** and was managing a division. The CEO asked me if I wanted to go to Austin, Texas and turn around a business that was having problems. I was excited to work in the US and was able to turn that business profitable and stayed three years.

Siemens was next up. I became president of their security division and six months later I took over the fire division. In 2006 I left Siemens when **Trey West**, my current partner and **Martin Krohn** another partner - both of whom I had worked with at Siemens - told me they bought this little company called **Knight Security** and wanted me to join. Knight only had ten to fifteen employees and one office in Dallas. I wasn't sure I wanted to do this but it was an exciting thought to build a new company. I had confidence in Trey and Martin, so I invested and took a leap of faith.

We opened a greenfield office in Houston in 2008 and merged in **Safesight** in Austin in 2009. **Chris Hugman** had built Safesight and is a current partner in Knight. Now we've got close to 100 employees, offices in Dallas, Austin, Houston and remote team in Rio Grande, San Antonio, Midland, Lubbock and Amarillo. Projects completed range from \$1,000 to \$12.5 million.

We have a lot of fun and it was one of the best decisions I've ever made. I really love working

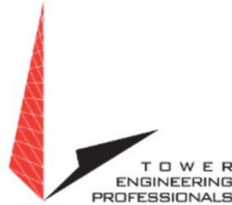
at Knight.

How does Knight continue to succeed and grow when there is so much competition?

When we bought the company we made some very important decisions early on:

1) No venture capital – we didn't want anyone telling us how to run the business. We wanted to run it the way we knew would be successful and we all had enough corporate experience to know what not to do.

This notice appears as a matter of record only.



Tower Engineering Professionals, Inc.
TEP Design Build, Inc.

Have been Acquired by Management and Investors.



The undersigned advised Tower Engineering Professionals.



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2) We needed to have the latest PROVEN technology – we decided we would only sell what we had tested and what we were sure was going to work.

3) To succeed, we needed to be a great service company; we really focused on that. We instituted service level agreements and regularly seek to out-perform the high levels established in our contracts. We position ourselves against some industry leaders who sometimes do poor installations and are lacking at great service and support.

4) We have many technicians and know that, to be successful, we need to empower them to

"We developed core values to guide us: Honor, Integrity and Service."

make decisions on site that we can't. So we developed core values to guide us: **Honor, Integrity and Service**. That's across the board – we use those values for clients, one another and vendors.

Those early decisions helped shape the company, make us competitive and keep us growing.

What is the corporate culture at Knight?

We focus on training and have immense appreciation and respect for our employees. Our business is based on our team of professionals!

Each quarter we have an all team meeting where everyone in the company attends. We give them all the info on how the business is running. This includes an overview of financials, how we're doing and what our goals and objectives are. We also celebrate anniversaries and new team members. This really keeps people connected and satisfied. They feel part of something; a team. It's an open environment where everybody contributes. Not everybody can be part of every decision but they're certainly part of the process and they have a voice. We instill a lot of pride in our employees; they give a lot and it's a nice place to work. It's so hard to find great people so once you find them, you have to keep them.

We also plan fun things for our employees. We have a happiness committee in each office – you can come in and look at the calendar and see what's planned for the month. We always have a day to celebrate people's birthdays and we schedule all kinds of events: swimming at the lake with Jet Skis, Flag Day, pot luck, bring your dog to work, watermelon eating contests... stuff that we all enjoy.

We also do a contest called Tech Trials where each office nominates their top tech person. All those folks are then brought to one office where we have them do a mock job - the person that wins gets a prize and, most importantly, bragging rights.

How do you decide what products you will endorse and use on a regular basis in your installations?

It has to be proven technology. We keep the product line narrow - we don't want five access control product lines, we want two or three, we don't want the latest flavor of the month, we want what we have confidence in. This way we can train and certify our folks on the line and they will know it backwards and forwards. Further, because we are specific and focused, the manufacturers of these products consider us a platinum customer. We sell a lot of their product and they put us at the top of their recommendation list.

Phil Lake, President, Knight Security Systems



Knight has two proprietary services – SecurePlan and SecurePlanHealth. What was the impetus for developing these services and what puts them ahead of other services out there?

Over the years, we've heard from many companies that they couldn't get their current provider out to fix the problem. If something failed, it would take four days for a service call. Not with Knight Security. **SecurePlan™** is our trademarked service level agreement. It offers our clients an unmatched level of support - if you call us by noon we will respond the same day. If we don't respond that day? The next month is free. And that's in writing.

This is a guaranteed priority service. If something fails we replace it at our cost - all labor and equipment - during normal business hours. Not only that, we put free loaner equipment in if anything has to go back to the manufacturer. The service also provides a full annual diagnostic for the system, technology updates, and priority dispatch, which is a big deal.

SecurePlanHealth™ takes it to the next level. It's one thing for a client to know something's failed but often they have no idea there's a problem. For example, you go to a lot of facilities where there may be three or four hundred cameras. How do you know if one is down? No one watches all cameras. We realized we needed a way to take care of this so we created **SecurePlanHealth**, which we just received a patent on. With this plan, we are able to monitor the health of our clients' systems.

We install a device we call "**KnightSentry™**" on any system we've put in and it will tell us what's wrong and where. *We can even tell when a hard drive is about to fail* – in fact we regularly replace them *before* they fail. That way our customers never lose video. Fifty percent of the time, we dispatch service before the client even knows something is wrong. We now have tens of thousands of devices we are monitoring constantly.

The company covers many markets. What are some of the challenges that exist in doing business with these different verticals?

Each vertical has different problems, requirements and priorities. We change designs to meet the needs of the customer, but the principals are the same: security, security, security. It's just a question of what level of security they need – financial may need more than a corporate office for example. Every one of our projects are custom built to that client's requirements, there is no one size fits all.

Phil has been in the Life Safety/Security, and Controls industries for thirty years and has held the President title for twenty. The companies he has led include **Honeywell, Chubb Security and Siemens**. Phil holds a Certified General Accountant Degree (CPA equivalent) from the University of Toronto.

A lot of integrators have salespeople that design the systems. We decided long ago that salespeople are relationship builders and that's their strength. They work with our clients to determine needs and objectives. They communicate these needs to the engineering team and let the engineers decide the best solution to meet the client's need.

proud to say we have an incredibly high 27% open rate. We do webinars, limited Google Ads, which we will be ramping up, and have done eight tradeshow in the first six months with another seven coming up between September and December.

The marketing thrust is really helping Knight to grow.

What do you consider some of the most exciting trends in the security space?

Certainly the cloud; but for me, I think the most exciting trend is the ability to monitor the health of the system. We're just getting started with **SecurePlan-Health™** and we're going to take it national. It's one thing to have a security system it's another thing to be confident that it's working, recording and doing what you want it to do. The ability to provide that and service it in a timely and professional way is what I'm passionate about. Technology is important, but the question is, no matter what technology you have, is it up and running? With security there's no second chance, you either captured the event or you didn't. If you didn't it's too late. No do overs.

Where do you expect Knight to be five years from now, what are your goals?

In the next five years we will more than double our business. We'll do this through service and our monitoring plans. Knight is about service, our people and our ability to attract great employees and clients.

Sokoloff & Company

Please contact **Bernie Walko**
Managing Director

for a confidential consultation about your company's merger and acquisition needs.

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While at our website, surf around. There's plenty of useful information, including valuation case studies and our archive of newsletters tracking historical industry performance.

"Always do right. This will gratify some people and astonish the rest."
- Mark Twain (1901)

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Cortel

Cortel, Inc. has been acquired by



J5 INFRASTRUCTURE PARTNERS

A partnership owned by management and investors.



Ridgemont EQUITY PARTNERS



CAPITAL ADVISORS

The undersigned advised Cortel, Inc.



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Tell us about your marketing.

In the last three years, we've spent a phenomenal amount of money in building our brand. We also brought in a marketing firm last year, **Built by Masonry**, which has really ramped up our social media. We use Twitter, Facebook, YouTube, LinkedIn and just launched a new website. This year alone we've done four major press releases. We produce a blog on LinkedIn called "Phil-osphy" which discusses very interesting topics like "There are three types of customers, which one are you?" and "How **SecurePlan** outshines the competition".

Currently we're putting together videos on Knight Security Systems and **SecurePlan**. We also do infographics and a lot of email blasts - with 23,000 contacts in our database - we've sent out 217,000 emails so far this year. We're

SOKOLOFF & CO. VALUATION RANKINGS OF PUBLIC SECURITY COMPANIES

Q2 2016 Reports and Stock Prices as of September 9, 2016

USA LISTED COMPANIES

Sokoloff & Company compiles a quarterly review of selected public security companies (and companies that dedicate a portion of their business to Security) and compares how each is valued by the public marketplace.

The companies are ranked comparatively by EVS, which is Enterprise Value divided by Sales. Other comparative indicators shown are P/E, Price to Earnings (market cap divided by earnings) and EVM, which is Enterprise Value Multiple; the Enterprise Value divided by EBITDA (Earnings Before Taxes, Interest, Depreciation and Amortization).

All multiples are based on trailing twelve months (TTM) numbers through the most recently reported quarter.

Note: The quarterly revenue percentage column is the increase (or decrease) from the same quarter in the previous year. Where fiscal year has differed from calendar year, the most recently reported information is used.

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Current Rank	Previous Rank	Company	Symbol	Stock Price 9/9/2016	52 Week Range	Market Cap 9/9/2016	(000s) 2012 Revenue	(000s) 2013 Revenue	(000s) 2014 Revenue	(000s) 2015 Revenue	(000s) 2nd Q 16 Revenue	Over Q2 2015 Inctr/Decr	P/E	EVS	EVM
1	2	Taser Corp.	TASR	25.18	13.56-30.15	1.32B	114,753	137,831	164,525	197,892	58,756	25.8%	100.72	5.73	41.68
2	1	Roper Industries, Inc.	ROP	176.06	150.91-195.93	17.84B	2,993,489	3,238,128	3,549,494	3,582,395	931,558	4.7%	26.48	5.66	16.48
3	3	Alltel, Plc.	ALLE	66.83	52.95-73.49	6.41B	2,046,600	2,069,600	2,118,300	2,068,100	584,900	12.6%	32.81	3.80	17.28
4	4	Gentex Corporation	GNTX	16.96	12.93-18.30	4.86B	1,099,560	1,171,864	1,375,501	1,543,618	423,801	11.7%	14.88	2.84	7.99
5	5	Flir Systems, Inc.	FLIR	30.70	25.12-34.09	4.21B	1,405,358	1,496,372	1,530,654	1,577,067	402,729	2.5%	22.66	2.58	11.94
6	8	Verint	VRNT	37.50	29.76-49.70	2.33B	782,648	839,542	907,292	1,128,436	261,921	-11.5%	N/A	2.48	22.63
7	6	Honeywell	HON	112.01	91.57-120.02	85.23B	37,665,000	39,055,000	40,306,000	38,581,000	9,991,000	2.2%	17.72	2.39	11.74
8	9	Tyco International	TYC	45.59	28.94-46.19	19.43B	10,403,000	10,073,000	10,332,000	9,902,000	2,449,000	-1.6%	37.07	2.23	14.11
9	10	Stanley Black & Decker	SWK	119.71	88.72-124.73	18.01B	10,147,900	10,889,500	11,338,600	11,171,800	2,932,400	2.3%	18.69	1.96	11.57
10	7	The Geo Group	GEO	21.46	16.26-35.14	1.59B	1,479,062	1,522,074	1,691,620	1,843,307	548,350	23.0%	11.54	1.91	10.53
11	11	Northrop Grumman Holdings	NOC	209.24	161.81-224.12	37.37B	25,218,000	24,661,000	23,979,000	23,526,000	6,000,000	1.8%	18.82	1.83	12.43
12	13	United Technologies Corp.	UTX	102.68	83.39-109.83	85.94B	57,708,000	62,626,000	57,900,000	56,098,000	14,874,000	1.3%	12.11	1.81	9.99
13	12	Lockheed Martin Corp.	LMT	237.94	199.01-266.93	72.07B	47,182,000	45,358,000	45,600,000	46,132,000	12,914,000	10.9%	19.81	1.77	13.34
14	14	Zebra Technologies Corp. *	ZBRA	66.12	46.13-88.02	3.49B	996,168	1,038,159	1,670,572	3,651,972	879,000	-1.2%	N/A	1.77	12.10
15	15	Brady Corporation	BRC	34.36	18.46-35.90	1.73B	1,071,504	1,157,792	1,225,034	1,171,731	282,106	-2.3%	112.29	1.62	12.04
16	23	Dibold	DBD	25.64	22.84-37.98	1.67B	2,991,693	2,857,491	2,734,800	2,424,300	580,000	-10.0%	8.39	1.62	22.05
17	16	Napco Security Systems, Inc	NSSC	6.62	5.05-7.75	124.37M	70,928	71,386	74,382	77,762	24,059	4.8%	22.67	1.59	17.31
18	19	OSI Systems	OSIS	64.19	48.19-96.75	1.21B	792,990	802,047	906,742	958,202	221,467	-16.9%	49.38	1.56	12.32
19	17	L-3 Communications Holdings	LLL	147.01	101.13-154.50	11.36B	13,146,300	12,622,000	10,466,000	10,986,000	2,664,000	4.8%	N/A	1.39	11.62
20	18	Siemens AG	SI	104.80	77.91-109.00	84.74B	103,466,000	92,101,000	79,532,000	84,455,000	23,842,000	6.1%	16.38	1.28	10.73
21	20	CACI International, Inc.	CACI	98.82	72.19-111.13	2.4B	3,774,473	3,681,990	3,564,562	3,313,452	1,113,900	28.7%	17.16	1.04	11.70
22	21	Johnson Controls	JCI	45.70	31.73-50.65	29.14B	41,955,000	41,410,000	38,749,000	37,179,000	9,516,000	-1.0%	45.38	1.01	10.94
23	22	ManTech International	MANI	39.81	24.90-41.60	1.52B	2,582,295	2,310,072	1,773,981	1,550,117	401,354	4.4%	27.40	0.96	12.55
24	24	Magal Security Systems Ltd.	MAGS	4.83	3.93-5.50	79.33M	77,697	51,517	77,543	63,736	13,629	-13.2%	86.25	0.92	14.78
25	25	Brink's Company	BCO	34.96	25.80-37.85	1.73B	3,735,000	3,779,000	3,562,000	3,061,000	739,500	-2.7%	N/A	0.70	9.05
26	26	Identive Group	INVE	1.96	1.39-4.85	21.47M	72,361	74,284	81,249	60,794	13,476	-13.5%	N/A	0.55	N/A
27	27	Anixter International, Inc.	AXE	59.99	37.60-70.29	1.98B	6,253,100	6,226,500	5,507,000	6,190,500	1,955,700	32.1%	24.94	0.49	9.81
28	28	Vicon Industries, Inc.	VII	0.70	.46-2.55	6.54M	49,652	39,846	34,878	44,884	9,527	-18.6%	N/A	0.17	N/A
Sokoloff Index				1,937.37			379,280,531	371,360,995	350,752,729	352,540,065	94,628,133	Quarterly Growth Over Q2 2015			
					<i>Growth over previous period</i>		Over Year 2012	Over Year 2013	Over Year 2014	Over Q1 2016					
							-2.1%	-5.5%	0.5%	3.7%					
													33.80	1.92	14.18
													22.67	1.70	12.07

*2015 Year End Revenues for Zebra (Nasdaq: ZBRA) include two months of results of the recently acquired Enterprise business that the company acquired from Motorola Solutions.



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