

Securing New Ground™

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THE BUSINESS OF SECURITY



13th Annual Conference Draws 300 Participants, Focuses on the Business of Security in a Difficult Economy

For the first time in 2008, the Securing New Ground and Security 500 conferences were held in concert, creating a high-powered networking and informational event for security industry leaders and investors.

Approximately 300 attended the two-day conference, held at The Roosevelt Hotel in New York City in November.

Speakers from leading integrators and manufacturers such as ADT, Diebold, DVTel, Henry Bros., Hirsch, Honeywell, Pelco, and Schneider Electric gave attendees wide-ranging insight and perspective on the security industry, including how to do business in a very difficult economic environment. Attendee comments continue to illustrate the value of this unique security business conference:



*“Securing New Ground continues to be **the premier conference** for the thought leaders and C-level people in the physical security industry, where the future of the industry is being presented and discussed.”*

—Fredrik Nilsson, General Manager, Axis Communications

*“Securing New Ground is a well-organized, network-rich venue to interact and learn from the security **industry’s best thinkers**.”*

—Dan Mocerì, CEO & Co-Founder, Convergent Technologies

*“I attend several conferences during each business year, and Securing New Ground is still the one that really has its **agenda focused on the pulse of our industry**. The experts, the topics, and the networking provide valuable insight as to the direction the industry is heading, allowing me to understand and plan strategically for change and growth.”*

—Jim Callahan, COO, Ackerman Security Systems

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“Global Perspective: Security’s Future in Uncertain Times”

Excerpts from the keynote presentation by Naren Gursahaney, President, ADT Worldwide

“The financial crisis is not just a U.S. phenomenon,” asserted Naren Gursahaney, ADT Worldwide President, as he gave the Securing New Ground keynote address. “It’s impacting mature markets and even emerging markets globally. I can’t tell you how long this crisis will last, but I can give you my take on what it means for the security industry.

“In the short-term, cash will be king. Companies that don’t have cash will struggle to get it to grow their business and make investments in the future. Companies that have strong balance sheets and cash flow and use capital efficiently should prosper. Business mix is also important. The more geographic diversity you have, the more you can benefit from growth opportunities elsewhere. A good recurring revenue stream provides a predictable foundation to build on.

“We’re going to see more consolidation as companies fall by the wayside that don’t have strong balance sheets and aren’t well-capitalized. It’s a challenge to appropriately value an asset for acquisition given equity values that have dropped 30 to 50 percent. But the market will sort itself out over time.

“Over the short-term, the financial crisis will put negative stress on the security industry, but we’re better positioned than other industries because the traditional threats that created a need for the security indus-



Gursahaney

try are still there and delivering solutions that provide customers peace of mind is still a priority. In fact, some traditional threats have become more significant. In retail, for example, combating shrinkage is now more a matter of protecting against employee theft than shoplifters. Organized retail crime is more efficient and using more technologies. Criminals are getting smarter and leveraging technology. We must develop new technologies and solutions to stay ahead of them in retail—and all markets.”

Gursahaney identified market drivers that will positively impact the global security market in the near future and long-term.

- **Crime.** Historically, violent crime goes up when the economy turns down. “This drives up the need for

greater protection in the residential market.”

- **Emerging market growth**, particularly in the BRIC nations (Brazil, Russia, India, China) and Middle East. “Mature market GDP is flat, but emerging markets show six percent growth. ADT is investing significantly in these markets to strengthen our footprint and capabilities, and better understand customer needs. We see major opportunity here.”
 - **Evolving technologies** applied in integrated solutions, such as video analytics, long-range iris recognition, megapixel video, mass notification, mesh networks, data mining, and service-oriented architecture. “The challenge is applying these technologies in ways that solve customer problems and make them more efficient. This is the name of the game today—providing solutions that drive operational productivity, efficiency, and new intelligence so customers have information for better decision making.”
 - **IT convergence.** “Convergence is a reality. Customers want integrated solutions that bridge security and operations to facilitate more effective operations.”
- “The current economy challenges everyone, but, from a long-term perspective, prospects for our industry are outstanding.”

Securing New Ground: A Must-Attend in 2009

When times are tough, valuable business intelligence is most needed. Securing New Ground provides that business intelligence. You’ll hear from, and have the opportunity to network with, more security industry leaders and investors in two days at this event than you would by attending multiple conferences and trade shows throughout the year. Plus, you’ll take home the most insightful industry research and information available from conference

partners Jeff Kessler of Imperial Capital, and *SDM* and *Security* Magazines, as well as from the Security Industry Association, Securing New Ground’s newest partner.

John Nemerofsky, president, TSS International, says, “As a security industry leader, your time is the most precious resource you have. If there is only one event you can attend, Securing New Ground is the one. Industry thought leaders, financial insights, and

networking at the highest level are just a few of the valuable takeaways from this world class event.”

Mark your calendar now and plan to attend the 2009 Securing New Ground conference at The Roosevelt Hotel in New York City, on Tuesday and Wednesday, Nov. 10-11, 2009. The Security 500 conference will be on Wednesday, Nov. 11, 2009. Visit www.securingenewground.com for more information.

Is the Security Industry Recession Proof?

The 2008 Securing New Ground conference took place against the backdrop of one of the most serious economic downturns in decades. As a result, the economy's impact on the security industry was much discussed during the two-day conference, both by speakers and by attendees at breaks, meals, and the evening networking reception. The consensus seemed to be that times will be tough for the next 12 to 24 months. Some comments:

"Security historically has been resilient in recessions—but certainly not immune from their effects."

—Jeff Kessler, Managing Director, Imperial Capital

"There is a much more balanced view than what you read in the newspapers



today. Yes, there are clear economic challenges. But industry fundamentals are still very strong, driven by market factors that will continue to fuel growth over the long-term. Those who can survive short-term can prosper over the long haul."

—Naren Gursahaney, President, ADT Worldwide

"Industry fragmentation and the exit of the weakest participants in this economy create sales growth opportunities for the strongest firms. Prior recessions sparked acquisitions and consolidations during the recoveries that followed."

—Mark Berry, President of Americas, GE Security

"Security is resilient and in demand. Fifty percent of SIA members are not cutting R&D investments."

—Richard Chace, Executive Director, Security Industry Association

"Integration is key and there's still a big push for system optimization. This may be more important in the tough economy over the next 12 to 24 months."

—Dean Meyer, President & CEO, Pelco



"Predictability of the RMR model is a big plus in weaker economic conditions. RMR opportunities are often overlooked by security dealers."

—Woodie Andrawos, Executive Vice President, National Monitoring Center

"The economy is not the key threat to system integrators. Convergence, bringing all systems together, is."

—Jim Henry, Chairman & CEO, Henry Bros. Electronics

"The alarm industry is not recession resistant; it will be impacted by the downturn. But it is recession resilient. Alarm companies should remind customers of the value they provide."

—Richard Ginsburg, President & CEO, Protection One



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Follow the Money

A favorite of SNG attendees for years, this year's panel was particularly anticipated in light of the global financial crisis.

"Security a calm port in the storm"



taking on the forces of evil and the forces of nature." He said:

- The global financial crisis has dramatically affected every capital market.
- Overall loan volume is down to 2003 volumes.
- Bank market liquidity has decreased; mezzanine debt and equity contributions have increased.
- Senior leverage has fallen about 22 percent, reflecting more conservative loan structures, lack of investor depth/appetite, and general credit market tightening.
- Pricing spreads for all primary and secondary market debt have widened significantly and yields have soared.

"There are actionable ideas for companies and financial sponsors to pursue," stated Polk. "Defensive moves include equifying the balance sheet, setting liquidity and covenant cushions to address economic weakness, marshalling cash reserves, and maintaining strong banking relationships." Offensively, companies can use access to capital (not the cost of capital) as a strategic weapon, accelerate share repurchases, and prepare for acquisitions of a lifetime at today's low valuations.

"The good news is that the security industry is a calm port in this storm,"

concluded Polk. "Security is driven by forces, like crime, that tend to rise in down economic cycles. Strategic and financial buyer interest remains strong and they have large capital reserves. The convergence of security and IT continues to drive new public and private sector spending. Certain security industry sub-sectors, especially government contractor, security alarm, and corrections, have experienced lenders. And industry credits generally remain sound."

"The buyside opportunity of a lifetime"



John Mack III, managing director, Imperial Capital, gave attendees these "takeaways" on today's market.

- Security M&A activity has slowed less dramatically than broad market M&A levels. Some sectors, such as ID solutions, continue to have healthy volume and valuations.
- There is still a lot of money in private equity firms for deals. "There is 20 times the amount of private equity on the sidelines today than there was in 1991."
- The security investment justification has gotten much better in the last five years. "Investing in security isn't just about risk mitigation anymore. Security is driving ROI with video ID solutions, access control, and more."
- Long-term trends favor security

EV/LTM EBITDA Multiples

Sector	11/5/2007	11/5/2008
Alarm Monitoring	10.6x	5.6x
Asset ID	9.1x	4.7x
ID Solutions-Products	11.8x	5.8x
ID Solutions-Services	9.3x	8.6x
Info security	13.3x	7.5x
Video Surveillance	21.3x	8.1x

Source: Imperial Capital

investing, with trends in sectors such as video, access control, home broadband, infrastructure, ID solutions, and IT security driving growth.

"Going forward, we can expect fewer M&A deals and lower valuations," concluded Mack. "We'll see more stock in transactions and less cash and lower leverage. More deals will be done by strategic buyers. This adds up to a big buyside opportunity to buy incredibly valuable businesses at lower valuations."

"A watchful waiting environment"



Walter Bailey, managing member, EpiGroup, said, "Leveraged markets are barely alive, liquidity is tight and highly prized as a competitive advantage, and strategics are tightening belts and stretching their investment dollars."

"But there are bright spots. While Q1-Q3 investments in security and defense are off by almost 28 percent from last year, over \$6 billion of new money entered the market from private sources during that period, particularly from venture capitalists and private equity investors."

"These investors are flush with cash," continued Bailey. "The S&P 500 companies have more cash on their balance sheets than in recent history. They're not using it, but they have it. Portfolio managers will be making new investments and liquidity will be opening up."

Bailey noted that cash flow-healthy businesses with strong customer ROIs are faring best. "Deals are getting done with companies that have strong balance sheets, business position, and cash flow," he said.

Follow the Money continued

Bailey expects a U-shaped recession and recovery, not a V-spring. "Equity markets probably will open in Q1 2009 for small deals and some new equity in the pipeline and on the sidelines. But lending will continue to be tough. No more covenant light or loose terms. Transactions will be more difficult and people will walk away.

"But fewer deals and lower valuations will lead to greater health," he concluded. "Deals had been overleveraged and mispriced and credit was free—not a sustainable model. Once we get through this year, our industry and the broader economy should be much better off."

"Security is more compelling than other industries"

"Private equity is used more widely than ever," stated Robert Chefitz, general partner, Egis Capital Partners. "Its best use is as growth capital to execute business

plans." Other uses include:

- Equity complemented by debt for buyouts.
- Debt reduction and strengthening of the balance sheet.
- Liquidity for key managers through the sale of secondary shares or one-time dividends.

Chefitz said there are large sums of capital available in the private equity market and pressure from investors to deploy that capital, but with caution. When seeking capital, Chefitz advised:

- Seeking funds with a security or geographic specialization.
- Being clear on the uses of capital.
- Having a well-defined exit strategy. IPOs are dead for now.



"Security is more compelling than most other industries today," said Chefitz. "It has strong growth relative to other industries and clear customer consumption and adoption. There still are high margins for security components and service providers, and opportunities are available in the consumer, commercial, and government markets. Some of the most intriguing companies to us are those at the intersection of security and operations where ROI is visible. We like video monitoring and think the future is bright for two-way active video monitoring."

Chefitz concluded by saying that it takes about six months to raise money. "You must have a clear business plan with a compelling executive summary and defensible model," he described. "There are tremendous amounts of capital looking for the kinds of companies that many in the security industry are building."



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Extreme Networking, Record Attendance Mark 2nd Annual Security 500!

Over 80 security leaders representing the biggest and best organizations in the U.S. gathered on November 12, 2008, for a day of learning, networking, and hospitality. Cited as the most powerful executive management program in the security industry, and critical for hearing and sharing new ideas, understanding new risks and solutions, and getting the inside track on key technologies—the buzz at Security 500 was dynamic.

The Security 500 Conference, held in conjunction with Securing New Ground, was developed by The Security Executive Council (SEC) and *Security Magazine*. SEC is a think tank and member organization for senior security and risk executives that creates innovative leadership solutions. The Security 500 Program Chair was Lynn Mattice, who served at Boston Scientific as VP and CSO (Retired) and is currently Chairman of the SEC's Board of Advisors.

The day kicked off with an inspiring and exciting keynote presentation by John McClurg, CSO, Honeywell Corporation. McClurg presented his unique strategy for structuring Honeywell's global security operations to support lines of business. His operational approach provides both physical and IT security programs that protect people, intellectual property, and physical assets, including facilities. McClurg provided an intriguing overview of applied technologies and human surveillance programs that have provided measurable results for Honeywell.

Mark McCourt, publisher, *Security Magazine*, presented findings from the 2008 Security 500 Survey. Among the top trends noted in this year's survey:

- Business Resilience and Crisis Management were being added to the Security role.
- Benchmarking programs are on the rise across the industry.



- Boards are implementing risk assessments and creating risk committees.

The Security 500 also identified the top security organizations within 17 sectors with useful metrics, including security spending per employee, security spending per dollar of revenue, and change in security budgets vs. 2007.

One program highlight was the "My Turn" session, in which three leading CSOs discussed critical issues in their sectors, their security programs, and the positive results they were experiencing as an outcome of applying best practices. Panel members were:

- Lori Hennon Bell, Vice President, CSO, Prudential
- Bob Moraca, Director, Security & Business Continuity, Sunoco, Inc.
- Bernard Scaglione, Director, Security, New York Presbyterian, Weill Cornell Center

David Carpenter, CSO, PepsiCo, provided insights of his experience at the global food company, addressing many security related challenges and the programs put in place to mitigate

them. A key success factor cited by Carpenter was involving all employees to be the 'eyes and ears' for both their own security and the security of others. The company encourages all members of the PepsiCo community to report suspicious activities and stay aware of their surroundings.

The Security 500 Conference's success and networking luncheon and reception were made possible by these industry-leading organizations that sponsored the event:



View from the Top

The first day of the conference traditionally ends with presentations by leaders of the companies that significantly affect the direction of the security industry through what they do and what they order.

Mark Barry, President of Americas, GE Security

Barry described three industry trends that are driving GE Security's strategy going forward:

- **Interoperability:** "Security systems traditionally have been standalone, but there's a growing need for interoperability. GE Security is in the process of pulling products together and building software around them to have everything work seamlessly."
- **Design for profitability:** "Hardware components are a declining percentage of the total cost of security systems. Rather than trying to compete on price and functionality, GE Security is developing a new generation of platforms that will sell at a competitive price and give integrators higher profits through faster installs and easier servicing. This is a winning formula for the times."
- **Interactive Services:** "Traditional, passive residential burglar alarm penetration is peaking and other products and services are competing for share of wallet. We see strong growth opportunities in interactive platforms that combine core security functionality with features such as home environment monitoring, multiple communication options, and dynamic content. This will bring both traditional and nontraditional industry participants."

In commenting on the economy's impact, Barry noted that security providers' appetite for Accounts Receivable risk may impact growth more than the availability of custom-



L to R: Kessler, Roy, Barry, Jankowski, Meyer

ers. "Partner selection is more critical than ever."

Peter Jankowski, CTO Digital Surveillance, Cisco Systems

Jankowski provided an overview of convergence trends, noting that:

- IP traffic is projected to quintuple from 2006 levels, reaching nearly 30 exabytes of data by 2011.
- There will be the same number of IP and analog cameras by 2012. IP camera growth in the U.S. will be 34 percent year-over-year through 2012 and significantly higher in Asia and Europe.
- By 2010, over 14 billion individual IP devices will be connected to the network.

"Technology is bringing convergence to our industry and security integrators need to increase their staff training on IT infrastructure," said Jankowski. "Learn new network technologies such as PoE, QoS, 802.1x, wireless, RTSP, and IPv6 that will secure networks and the products hooked to them. Learn multiple software operating systems such as Microsoft and Linux and the SQL databases that drive these

software systems, such as Oracle and SQLServer. Build your understanding of digital video and storage options such as NAS, SAN, RAID, and iSCSI. We're seeing unique applications for sharing storage from video, access control, and other security systems."

Jankowski noted that, "The expertise and value of today's physical security is very important and needs to be brought into the IT world."

Dean Meyer, President & CEO, Pelco

Meyer described three key industry trends:

- **Technology integration:** "More and more jobs are sold based on integration." Technologies in demand include software-only solutions; higher image quality cameras, particularly low light resolution; wireless applications for city surveillance. "System optimization may be more important in the tough 12-24 months that lie ahead. Cash flow and low cost are everything to integrators in this economy and they want guaranteed solutions."
- **Markets:** Meyer sees "tremendous

View from the Top continued

differences” in market growth rates and technology adoption. “It’s not all about technology. There are many different ways customers prioritize what’s important to them, such as quality, reliability, cost, serviceability, manufacturing support. They’re not looking for generic solutions.”

- **Manufacturer challenges:** “We have to deal with faster technology cycles and faster time to market. We need to develop 80 percent feature set solutions and get them to market early. If we wait to have 100 percent solutions, we’ll miss the market.” According to Meyer, security integrators are asking manufacturers for services that help them make the difficult transition to IP and grow their revenues. “Many integrators can’t afford to hire IP staff and want to tap manufacturer expertise.”

Lisa Roy, Vice President & General Manager, Global Security, Johnson Controls

Johnson Controls entered the security industry two years ago. Its focus is heavy security technology users who have high annual security spending and high non-discretionary spending mandated by regulation. Roy said that security market growth is driven by:

- Convergence.
- New technologies.
- The need for security to go beyond protecting people and assets to providing information that impacts business outcomes, such as cost reduction and compliance.

To answer the question, What customers are in a position to capitalize on these trends?, Roy described Johnson Controls’ market analysis.

In the North American construction market, data suggest that the institutional market (education, healthcare, public transportation) will fare better than commercial/industrial and residential. Overall, the non-residential market will slip about 10 percent in construction spending, precipitating a similar drop in security spending.

“We examined industry CAPEX to sales ratios in the 2001 recession,” stated Roy, “and found that healthcare, energy, utilities, pharmaceuticals, government, public transportation, and education ratios held up better.” Roy suggested that, to understand risk in this economy, attendees should determine what percentage of their business is in markets that can weather the financial storms and those that are more vulnerable—and then focus on the former. “The key question is, ‘Is my security company recession proof?’ rather than ‘Is the security industry recession proof?’”



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