Brian Ruttenbur, Managing Director, Imperial Capital Talks About 2021-2022 Security Trends

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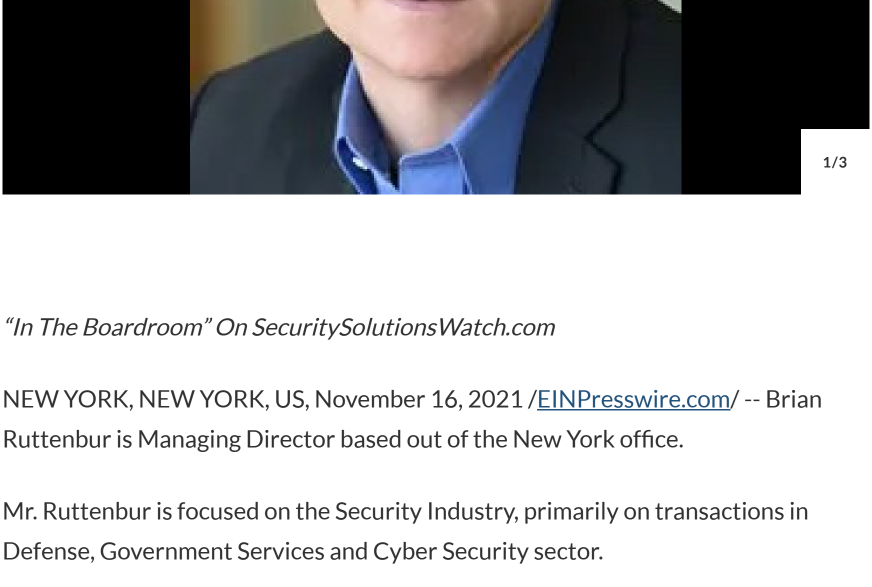

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"In The Boardroom" On SecuritySolutionsWatch.com

NEW YORK, NEW YORK, US, November 16, 2021 /EINPresswire.com/ -- Brian Ruttenbur is Managing Director based out of the New York office.

Mr. Ruttenbur is focused on the Security Industry, primarily on transactions in Defense, Government Services and Cyber Security sector.

He has over 25 years of experience in investment and equity research. He was most recently a Director, Investment Banking at Drexel Hamilton where he successfully executed numerous transactions in both Defense and Cybersecurity. His experience at Drexel Hamilton included Director of Equity Research, where he provided and published analysis on public companies in the Defense and Security space, as well as oversaw the Equity Research operations prior to transitioning to investment banking. Prior to Drexel Hamilton, Mr. Ruttenbur was Managing Director, Equity Research at BB&T Capital Market. He provided analysis in the Aerospace & Defense sectors and published extensive industry reports. Mr. Ruttenbur's experience includes firms CRT Sterne Agee Capital Group and Morgan Keegan.

Mr. Ruttenbur earned a BA from University of Tennessee and MAS from University of Montana and served as an officer in the USAF securing nuclear weapons.

SecuritySolutionsWatch.com: The security headlines keep coming, day after day, and they are not good ones….Colonial Pipeline, randsomware, killware, "shots fired"…our daily lives, our infrastructure sometimes feels more vulnerable than ever before…and the bad guy might be a foreign government, terrorist group, sophisticated hacker group, home-grown terrorist, and, unfortunately, sometimes from within, from a disgruntled employee. What is your perspective on this Brian … are things getting better or getting worse?

Brian Ruttenbur: I do not see a decrease in the threats to our collective security and safety. In fact, I believe the security industry is addressing an increasing number of threats from physical to cyber. Using an analogy, the security industry has been like the famous Dutch boy who saves his country by putting his finger in a leaking dike. The problem with this analogy is that there are an increasing number of leaks and not enough "Dutch boys" to plug the holes. On a positive note, a major result of the pandemic is an elevation of security and safety in all areas of life. We are seeing an increased investment in the industry by enterprises and individuals.

> **We are honored to chat with Brian Ruttenbur, Managing Director, Imperial Capital about security trends and honored to be a media sponsor with the Imperial Capital Security Investor Conference."**
> *— Martin Eli, Publisher*

SecuritySolutionsWatch.com: Can you provide a list of your research coverage names at Imperial Capital in the Security Sector and provide some trends you are seeing in the sector?

Brian Ruttenbur: My current coverage is in Alphabetical order: Ambarella (AMBA), ADT Inc. (ADT), Alarm.com (ALRM), Allegion plc (ALLE), Cognyte Software (CGNT.O), Evolv Technologies Holding, Inc. (EVLV), Identiv Inc. (INVE), Napco Security Technologies, Inc. (NSSC), OSI Systems (OSIS), Resideo Technologies, Inc. (REZI), ShotSpotter (SSTI), Snap One Holdings Corp (SNPO), Universal Electronics (UEIC), Vivint Smart Home (VVNT), and VOXX International (VOXX).

To access Imperial Capital Research Reports on Evolv Technologies Holding, Inc. (EVLV), and Snap One Holdings Corp (SNPO), and to see additional images and charts which were published with this interview, please click here: https://securitysolutionswatch.com/Interviews/in_Boardroom_Imperial_Capital_Brian_Ruttenbur.html

Key trends I am spotting include: Convergence of three markets - IoT, Home Automation, and Alarm Monitoring.

The traditional alarm monitoring market operates under a business model where high margin recurring monthly revenue is used to subsidize initial costs (primarily hardware and installation costs). The traditional model has been very successful in landing (typically for no upfront fee or a small fee up-front fee) and keeping long-term customers for years that pay monthly recurring fees. In the last several years, we have seen a surge in the IoT and Home Automation markets. The problem with IoT and Home Automation, while growing rapidly, is that they have lacked an integrated offering with a compelling service model thus, there has been limited recurring revenue.

We believe IoT and Home Automation providers are beginning to move to an Alarm Monitoring business model (with limited upfront fees but with the customers signing long-term contracts). This shift can be observed with recent companies like Latch Inc (LTCH – Not Rated) and Smart Rent (Not Rated) both offering services to multifamily facilities with high recurring fees (we will discuss Latch in further detail later in this report). We are also observing traditional alarm companies moving further into IoT and Home automation like ADT and Monitronics/Brinks Home Security experiencing solid growth and higher retention through a broader offering to its end user. Finally, we see multinational security companies like Prosegur expanding its offerings from guard/alarms/cash management to video monitoring and home automation to increase RMR or recurring monthly revenues.

Overall we are seeing the recurring revenue model being brought into the home automation and IoT sector. The traditional alarm and security companies still operate somewhat differently vs. pure play IoT/Home Automation companies (sales channels/business models etc.) as well as offering different value propositions for the end users (including monitoring centers). What is undeniable, in our opinion, is a move to recurring monthly revenues, cross selling of solutions (IoT, Alarm, Home Automation), and increasing retention rates (higher perceived value for the end users). The melding of these three markets will continue to spur growth for all three segments.

Demand for Smart Home Devices Remains High

Demand for Smart Home Devices is up dramatically with our channel checks confirming that there is no slowdown in consumer spending in this sector. ADT recently stated that ~ 80% of new customers are wanting smart home solutions not just security. On the next page is a chart of the most desired consumer smart home devices. Smart thermostats and cameras remain at the top of the list. We note that consumers require and prefer ease-of-use over technical innovation and have gravitated towards less complicated technologies (e.g., master controls of connected devices).

The Post-COVID Office

We are convinced that new commercial office construction will likely be down the next 3-5 years and the main focus over this period for organizations will likely be repurposing existing office space. We believe Allegion (ALLE) and Assa Abloy (public in Sweden and Not Rated) will continue to dominate the new office space construction sector despite the strong and persistent rise in white labeled door/access control products in the commercial sector. In the office retrofit sector we see smaller, newer, and more nimble competitors offering flexible solutions for the rapidly changing office. We believe there is a strong industry up-tick in retrofitting existing office space. COVID, in our opinion, has taught our largest and fasted growing part of the workforce, millennials, that they can work as effectively in their shorts and t-shirts from the comfort of their homes. This lesson will be difficult to unlearn. Most millennials (if recent surveys are an indication) do not want to go back to a traditional office full time (5 days per week) and prefer to split their time between working remotely and going to an office for meetings. Below are images of a traditional office and a post-COVID office. As is likely obvious the security, scheduling, and access control needs of a post-COVID office will be very different from the traditional office.

Supply Chain Issues a Central Concern

We believe the biggest issue beyond inflation facing the industry is supply chain delays (longer delivery times as well as uncertainty of the timing) as well as the rising shipping costs. We note that Allegion (ALLE - In-Line) announced last week that they will miss their guidance in 2021 because they cannot get needed product in a timely manner (no demand issues only supply issues). Allegion management lowered revenue guidance to 4%-4.5% from 7%-7.5% for 2021 while other companies saw issues in generating revenues and a decrease in gross profit in the 3Q 2021.

Longer Delivery Times

Across the supply chain we are hearing stories of long delivery times and delays in receiving products. Delivery times from Asia for example pre pandemic were 2-3 weeks. These same deliveries are measured in months with limited certainty on timing. We believe there are many problems with the supply chain from lack of skilled labor (certified short hall truckers and dock workers – just highlighting a few areas) to the historical use of just in time inventory. As a data point, we are hearing about an increasing number of companies stockpiling inventory or buying large quantities of inventory in cash (paying in advance for product in order to "jump line" to ensure they get needed materials) in advance of a projected need. We believe one change in the industry, post pandemic, will be for larger companies to move away from just in time inventory systems.

Rising Shipping Costs

Shipping costs per container have dramatically risen from pre-pandemic levels to current levels. For example, a container from Asia to the US would cost $4K-6K pre-pandemic now cost $20K-$36K per container (depending on the company's volume). Again, the arrival times of these more expensive containers is both longer and less predictable.

In summary, we see several trends impacting our security coverage universe. Demand remains strong but the inflation and rising costs are concerning to us as companies are forced to raise prices to keep up with the increasing costs.

SecuritySolutionsWatch.com: Allied Universal, earlier this year, completed its' acquisition of G4S, do you expect additional consolidation in the security space?

Brian Ruttenbur: I expect additional consolidation in the sector. While Allied Universal is making big moves so is: Assa Abloy with HHI from Spectrum Brands for $4.3 bn (this could put pressure on Allegion to make acquisitions in the sector)

Blackstone acquisition of The Chamberlain Group which includes LiftMaster for $5 billion (announced on September 2, 2021)

Prosegur announcing they plan to build out (by making acquisitions) a US security practice in the next 5 years from a base of $100mm to $1B in revenue

Latch and SmartRent with ~1B in cash with most of this cash set aside to Acquire

Alarm.com with over $600mm of cash and looking to acquire in the sector (Alarm.com has a history of making acquisitions)

Motorola - Has made 3 sizable acquisitions in the last year totaling $531mm in purchase price a. Pelco b. OpenPath c. Envyson

SecuritySolutionsWatch.com: Thanks again for joining us today, Brian. We look forward to doing another update with you down the road!

For the complete "In The Boardroom" interview with Brian Ruttenbur, Managing Director,
Imperial Capital, please click here:
https://securitysolutionswatch.com/Interviews/in_Boardroom_Imperial_Capital_Brian_Ruttenbur.html

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