

# RCW MIRUS INDUSTRY spotlight

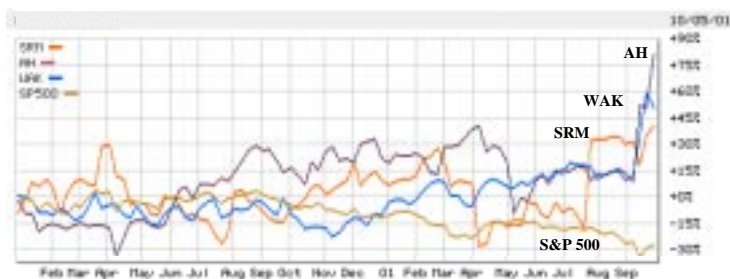
# SECURITY INDUSTRY

NOVEMBER 2001

## INDUSTRY OVERVIEW □

The security market, a multi-billion dollar industry, consists of companies that develop products surrounding x-ray, biometric, surveillance and ballistic technologies, as well as companies that provide services including guard protection, risk assessment, security monitoring, systems integration and armor transport. A number of smaller niche firms proliferate these various segments and have become prime acquisition targets of large conglomerates looking to fill product, service and geographical gaps. Firms such as, Tyco International, Ltd. (TYC), Securitas AB (SEC), Honeywell (HON), Sensormatic (SRM) and Armor Holdings (AH) have consummated many of the security-related acquisitions over the past four years and continue to augment their growth through select acquisitions.

In light of current events many security companies have experienced significant increases in customer orders. For example, Armor Holding's daily order volume has increased by 40 percent since September 11<sup>th</sup>.



As illustrated above, a noticeable resurgence of activity in the capital markets is occurring amongst many security conglomerates. Armor Holding's market value has increased by 50.9% from its 52 week high and is currently trading at 68x trailing twelve month earnings. Recognized to be a relatively stable market, the organic growth rate of this \$100 billion industry is expected to grow between 6 to 8 percent and as high as 20 percent in some niche markets, from 2001 through 2004.

## SECURITY TRENDS & OUTLOOK □

RCW Mirus believes the following actions described below will spur consolidation in the middle- market security sector:

**Security Agenda Sparks Demand**- Security measures are at the top of corporate agendas, resulting in a significant increase in security budgets.

**Government Investment Spurs Growth**-President Bush has proposed appropriating funds from Washington's \$40 billion anti-terrorist bill to finance the development of security related technologies.

**Technological Advances**- Technology is a key area that will drive consolidation, as corporate adoption of niche technologies is well underway. Large security providers will look to add access control and identification technologies, such as facial biometrics, digital surveillance and RFID devices, to their portfolio in order to round out existing offering.

## RCW MIRUS INC.'S INVESTMENT BANKING SERVICES

### CONTINUED GROWTH AND CONSOLIDATION □

- RCW Mirus expects consolidation in the security market to accelerate in 2002, as conglomerates look to bolster their security stance and large, pure security plays seek to extend their geographic reach and augment the depth of their products and services. Additionally, in order to capitalize on current market trends, we believe smaller firms will pursue strategic partnerships, aligning themselves with larger firms for the additional production and marketing capital necessary to accelerate growth.

### VALUE DRIVERS □

- RCW Mirus believes the following points are critical in driving value for middle market security companies:

- **Scalability**- As the security marketplace becomes more and more crowded, successful businesses with the human capital and infrastructure required to quickly scale operations and aggressively acquire market share will become dominant market leaders.

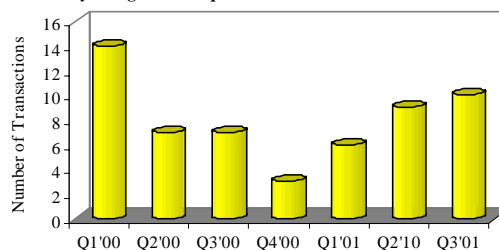
- **Strategic Partnerships** - Successful companies will develop strategic partnerships with complimentary security firms to solidify and grow their presence. On October 31<sup>st</sup>, Vissage Technologies announced an alliance with Pelco, the world's largest CCTV manufacturer to integrate its biometrics solution.

- **Total Security Solution** - Large customers are looking for a single provider to integrate an end-to-end solution. Companies with the ability to provide its' clients a complete security solution will continue to land larger engagements and further penetrate existing accounts.

### RECENT TRANSACTIONS □

Despite a softening economy and sluggish pace of overall merger and acquisition activity, consolidation in the security sector continues to increase. The following is a list of recent transactions:

U.S. Security Mergers & Acquisitions 2000 - 2001



- Tyco International Ltd. acquisition of Sensormatic Electronics Corp for \$2.2B is pending
- Tyco International Ltd. acquired Cambridge Protection-Security, July 5, 2001, \$1.0 B
- Mytec Technologies Inc. acquired Biometric Identification Inc., April 18, 2001, \$12.6M
- ADT Security Services (Tyco) acquired SCANA Security, April 3, 2001, \$24.5M
- Investor Group (UK) PLC acquired First Security Guards, March 31, 2001, \$15.2M
- Sensormatic Electronics Corp. acquired Richmond Security Ltd., March 29, 2001
- Rentokil Initial PLC acquired CPS Security Inc., March 13, 2001, \$4.9M
- Digital Biometrics Inc. acquired Visionics Corp., February 15, 2001, \$36.75M
- Civil Aviation Securities GmbH acquired ICTS International, January 1, 2001, \$45.0 M