PITT STREET RESEARCH

Intelligent Monitoring Group

Expecting >$40m EBITDA in FY25

Intelligent Monitoring Group (ASX: IMB) has closed the book on a spectacular FY24.

FY24 was a spectacular year, and FY25 is set to be better

IMB, which is Australasia's largest independent security monitoring provider, increased its revenue by 400%, grew its EBITDA margin by over 10 basis points and exceeded all guidance it had given to shareholders – both for the company as a consolidated group, and for the ADT segment.

The company has reiterated its target of >$40m EBITDA in FY25, which would be 15% ahead of the FY24 result. It has laid the foundations for further growth, with the acquisitions of Adeva, ACG Integration and Alarm Assets Group.

Well embraced by investors

IMB has been well embraced by investors with a near 200% share price increase in 12 months and its recent capital raise 60% oversubscribed. And it is not just because of the company's performance, but because of its industry. The security industry has proven resilient to volatile economic conditions, yet still provides a growth opportunity to IMB in the form of the roll out of DIY solutions – which is this company's expertise. Moreover, the company has a high quality share register - being more than half owned by institutional investors – operates out of all major Australasian cities and has a stable recurring revenue base, drawn from over 200,000 customers.

New Valuation of A$1.05-A$1.23 per share

We have previously Intelligent Monitoring Group, as outlined in our initiation report – A$0.57 per share in a base-case scenario and A$0.75 per share in an optimistic case scenario. In light of the company's performance for FY24, and its surpassing of our base case scenario, we have decided to update our valuation to A$1.05 per share in our base case and $1.23 per share in our bull case. Please refer to pages 7-8 for our rationale and page 9 for the key risks to our thesis.

Share Price: A$0.64

ASX: IMB

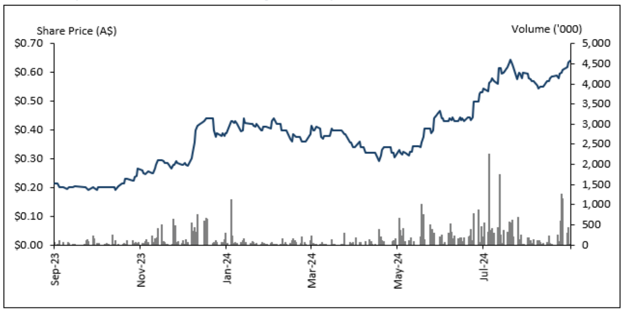
Sector: Technology

17 September 2024

Market cap. (A$m)	193.2
# shares outstanding (m)	301.8
# shares fully diluted (m)	330.2
Market cap ful. dil. (A$m)	211.3
Free float	42.0%
12-months low/high (A$)	0.085/0.440
Avg. daily volume ('1000)	121.7
Website	intelligentmonitoringgroup.com

Source: Company, Pitt Street Research

Share price (A$) and avg. daily volume (k, r.h.s.)



Source: S&P Capital IQ, Pitt Street Research

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The Investment Case for Intelligent Monitoring Group (ASX: IMB)

The key reasons to look at Intelligent Monitoring Group include:

1) **Intelligent Monitoring is Australia's largest independent security monitoring provider**. It caters to over 200,000 customers, both residential and commercial. It has high-quality and highly rated products, which include DIY solutions.
2) **IMB is in a defensive sector and has a defensive business model**. The company generates recurring revenue on a subscription basis, generated from a sticky customer base which includes government, personal emergency response, and other commercial customers. But even for residential customers, the need for security system is not one that can be deferred in tough economic times.
3) **The company has found a balance between organic growth and M&A**. There are no shortage of companies on the ASX to have grown through M&A activity, but this strategy can be a backfire when acquisitions are just for their own sake or to cover up a lack of organic growth. Even though IMB has acquired several companies, these have been strategic and have boosted the scale, product portfolio, profitability, and reputation of the group. The company's substantial EBITDA margin growth during FY24 depicts the foothold of its business model.
4) **Industry tailwinds presents the company with significant opportunities –** The security monitoring industry in Australasia is highly fragmented with a large number of small players. This situation works in favour of larger players such as Intelligent Monitoring Group which can use its strong market and financial position for further consolidation. It is also worth noting that the Australasian market remains underpenetrated in terms of electronic monitoring devices and adoption of DIY products, as compared with other advanced economies such as the US. This implies that there is scope for significant upside in this industry in Australasia.

We initiated coverage on IMB in December 2023, and we valued the company at A$0.57 per share in a base case and A$0.75 per share in an optimistic case based on a blended valuation approach (using a DCF and Relative Valuation approach separately then weighing both equally). The company was then A$0.30 per share and capitalised at $81m on a full diluted basis. Our thesis was that share would re-rate post the company's financial results for H1 FY24 and the full FY24, if they met the guidance – and this eventuated. We have updated our valuation of the company to A$1.05 per share in a base case and $1.23 per share in our bull case.

Intelligent Monitoring Group's FY24 results

IMB's revenue was 400% higher than the year before.

IMB has recently released its results for FY24, the 12 months to 30 June 2024 (Figure 1). The acquisition of ADT was only completed on 1 August, hence it was only reflected in 11 months of the 12 in FY24. The company's revenue was 400% higher than the year before. Of course, IMB's revenue was increased by the ADT acquisition, although the result was aided further by IMB's enhancement of the business. The monthly revenue run rate was doubled in 12 months.

Figure 1: Intelligent Monitoring Group's FY24 results

P&L Summary		FY24	FY23
Revenue (ADT 11 months)	**$m**	**121.8**	**24.3**
Gross Profit (ADT 11 months)	$m	56.9	10.0
Adjusted EBITDA* (ADT 11 months)	$m	32.4*	3.7
EBITDA margin	%	26.7%	15.2%
Adjusted EBITDA (ADT 12 months)	$m	34.6	3.6
Depreciation (and leases)	$m	3.7	0.9
Operating EBIT (ADT 11 months)	$m	28.7	2.8
Amortisation (and subscriber assets)	$m	14.0	6.4
Abnormal items**	$m	12.8	3.5
Interest	$m	16.0	5.4
Tax (benefit)	$m	10.9	0
Reported Profit/Loss	$m	3.1	-11.9
Profit/Loss before abnormal items and amortisation (ADT 11 Months)	$m	23.7	-2.6
Operating Cashflow (pre-non-recurring costs, ADT 11 Months)	$m	20.8	0.4

Source: Company

IMB exceeded its normalized EBITDA guidance and met the higher end of its EBITDA guidance.

IMB had guided to $33.5-34m normalised EBITDA and $32-32.5m adjusted EBITDA. It exceeded its normalised EBITDA guidance and met the higher end of its adjusted EBITDA guidance, recording $34.6m normalised EBITDA and $32.4m. The company's EBITDA margin increased from 15.2% in FY23 and 26.7% in FY24. The company recorded a $13.9m loss on a statutory loss including abnormal items (including ADT acquisition, refinancing and other one-off costs). Without abnormal items, the company would have made a $12.9m profit.

Turning to its cash flow statement, the company was able to generate positive cash flow from its operations even with the abnormal costs, generating $8.1m as opposed to a $3.1m outflow the year prior. It closed the period with $25.5m in cash and cash equivalents, nearly five times more than the year before (Figure 2). With an adjusted net debt of $68.3m, the company is at a Net Det to Underlying EBITDA of 2x and Net Debt to proforma EBITDA of 1.7x. The company successfully refinance its debt and twice raised equity.

Figure 2: Intelligent Monitoring Group's balance sheet

Balance Sheet Summary			
		FY24	FY23
Cash	$m	25.6	5.3
Receivables	$m	22.3	3.8
Inventory	$m	5.2	0.8
Property, Plant & Equipment	$m	16.0	1.9
Goodwill	$m	77.7	24.1
Other Assets	$m	7.6	1.4
Total Assets	$m	154.4	36.4
Accounts Payable	$m	20.2	5.9
Debt	$m	79.2	29.1
Other liabilities	$m	27.5	3.1
Total Liabilities	$m	126.9	38.1
Equity	$m	27.5	-1.7

Source: Company

A Big Future Lies ahead

Looking to FY25, the company's goals include:

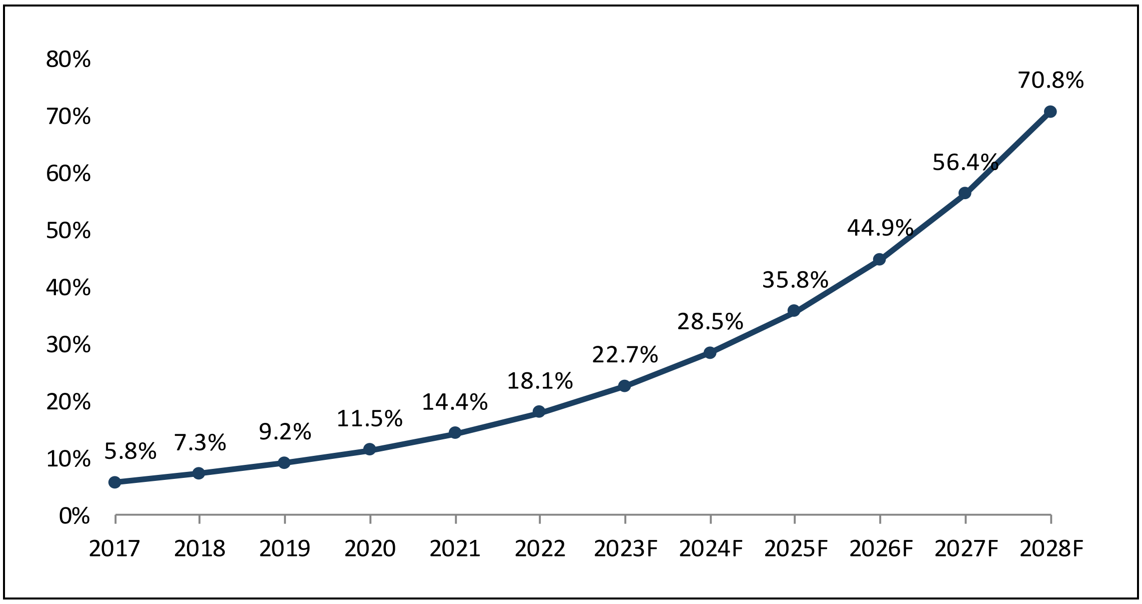
1) Surpassing >$40m in EBITDA
2) Refinancing its debt to a commercial banking facility
3) Growing national coverage of its people
4) Enhancing its technology operating platform, and
5) Improving supplier relationships.

IMB has told investors it would be open to further M&A activity, subject to capacity, strategy and value accretion.

We see the opportunity for IMB in the adoption of smart and DIY home solutions

Looking to the medium to longer-term, we see the opportunity for IMB in the adoption of smart and DIY home solutions. Australia has been slower to adopt home security solutions compared to other jurisdictions. But the introduction of new solutions delivering greater value for money (less cost but better protection) will open up the market to a demographic that previously may not have considered them (Figure 3). Enabling such systems are the shutdown of the 3G network and rollout of advanced 4G.

Figure 3: Household penetration rate of security products in Australia



Source: Statista Market Insights

Another key markets will be the Commercial market. The commercial security system market comprises various products such as smart locks, sensors, security cameras, and security alarms, all for the commercial sector (with examples including banking and retail). The need for security systems has grown because of increased threats, greater consumer awareness, concerns about security, and increased investments in security measures. Data from Apollo Research Reports, outlined in further detail in our initiation report, forecasts that the market for security cameras and sensors is projected to grow over 9% by 2032

Our valuation of Intelligent Monitoring Group

We update our target valuation of A$1.05 in our base case and A$0.23 in our bull case.

In our December 2023 report, we valued Intelligent Monitoring Group using a combination of Discounted Cash Flow (DCF) and Relative Valuation (50% each) methods to arrive at the intrinsic value of the company. Our target valuation was A$0.57 per share in our base case and A$0.75 per share in our bull case. In each of our subsequent reports, we have reiterated our valuation, but now we believe it is time to update it, with the company's share price above our original base case, even with the number of shares on issue having increased. We value IMB at $1.05 per share in our base case and $1.23 per share in our bull case (Figure 4). This is once again achieved using a blended DCF/RV approach and our updated methodology is below.

Figure 4: **Our valuation of Intelligent Monitoring Group**

BASE CASE

Base Case	Weights (%)	Share price (A$)
DCF	50.0%	1.135
Relative valuation	50.0%	0.960
Composite Value		**1.048**
Current Price		0.640
Upside/ Downside (%)		**63.7%**

BULL CASE

Bull Case	Weights (%)	Share price (A$)
DCF	50.0%	1.314
Relative valuation	50.0%	1.152
Composite Value		**1.233**
Current Price		0.640
Upside/ Downside (%)		**92.7%**

Estimates: Pitt Street Research

Our DCF valuation

Our original DCF was A$0.70 per in the base case and A$0.94 per share in the bull case. We update it to $1.14 per share in our base case and $1.31 per share in our bull case (Figure 5).

This is achieved by:

- Removing FY24 from the model and extending the life of our model by one further year to compensate.
- Reducing our WACC from 15% to 13.8% by reducing the beta and risk-free rate of return.

Our other key model assumptions remain intact including the assumption of no further acquisitions. By projecting similar growth in the last year of our model, we think the company can double its revenues by FY28 and triple them by FY32.

Figure 5: Our DCF of Intelligent Monitoring

Intelligent Monitoring Valuation (A$ m)	Base Case	Bull case
Enterprise Value (A$ m)	358.2	403.7
Net (debt) cash	(68.3)	(68.3)
Provisions	(1.5)	(1.5)
Equity value (A$ m)	**288.3**	**333.9**
Share outstanding (Diluted)	254.0	254.0
Implied price (A$ cents)	1.135	1.314
Current price (A$ cents)	0.640	0.640
Upside (%)	77.4%	105.4%

Estimates: Pitt Street Research

Our Relative Valuation

In our initiation report, we compared Intelligent Monitoring to two peer companies - Central Security Patrols Co. Ltd. (TSE: 9740) and Irisity AB (OM: IRIS) – and used an EV/Sales approach. With the latter company now substantially trailing IMB by revenues generated, we no longer believe it is an appropriate peer. We believe CSE, a Japanese security company listed on the TSE (Tokyo Stock Exchange), still is an appropriate peer, however.

CSE, which makes over A$700m in revenue annually and has a history dating back to the mid-1960s, provides security services in Japan. The company offers stationed guard services, online and home security services; and transportation security services for cash and valuables. It also constructs and sells surveillance camera/image surveillance systems; and access control systems, as well as undertakes crime, fire, and disaster prevention equipment and facilities installation works.

It is trading on the TSE at a market capitalisation of just over $400m and has an enterprise value of $243.8m. Ascribing that same valuation to IMB generates $0.96 per share. We have also modelled a bull case in which we ascribe a 20% premium to IMB. This generates A$1.15 per share (Figure 6).

Figure 6: Our DCF of Intelligent Monitoring

BASE CASE

Equity value	(A$m)
Peer Market Cap	**408.7**
Cash	(240.7)
Debt	48.9
Minority Interest	26.9
Enterprise Value	**243.8**
Diluted Shares (m)	254.0
Implied price (A$)	**0.960**
Current price (A$)	0.640
Upside (%)	*50.0%*

BULL CASE

Equity value	(A$m)
Peer Market Cap	**408.7**
Cash	(240.7)
Debt	48.9
Minority Interest	26.9
Enterprise Value	**243.8**
Premium	**20%**
EV post-premium	**292.6**
Diluted Shares (m)	254.0
Implied price (A$)	**1.152**
Current price (A$)	0.640
Upside (%)	*80.0%*

Estimates: Pitt Street Research

Key risks

We foresee following key risks to our investment thesis for Intelligent Monitoring Group:

– **Competitive risk:** The company is in a highly competitive market that requires constant innovation. There is the risk of major competitors seizing the group's market share through the development of superior products and/or by causing pricing pressure in the market.

– **Regulatory risk:** The company is subject to several Australian laws and regulations, such as consumer protection laws, privacy laws, and workspace health and safety laws. Any instance of a critical regulatory lapse in future could have an impact on the company's future product line and its cashflows.

– **Key personnel risk:** The company's performance is highly dependent on its management team and staff. There is the risk that the company could lose these individuals and be unable to replace them and/or their contribution to the business.

– **Cost pressures:** The demand for security products is running ahead of the ability to install alarms. And so, wage inflation can be a threat to the company. This risk is mitigated to a certain extent for the group as it has started focusing more on DIY product categories.

– **Value-destroying acquisitions:** Intelligent Monitoring Group has relied on acquisitions to grow its scale and it is likely that the management will continue to follow this target in future. There is the risk that the company may enter into deals that do not yield the desired benefits and also negatively impact its capital structure and shareholder wealth.

Appendix I – Analyst certification

Stuart Roberts, lead analyst on this report, has been an equities analyst since 2002.

– Stuart obtained a Master of Applied Finance and Investment from the Securities Institute of Australia in 2002. Previously, from the Securities Institute of Australia, he obtained a Certificate of Financial Markets (1994) and a Graduate Diploma in Finance and Investment (1999).
– Stuart joined Southern Cross Equities as an equities analyst in April 2001. From February 2002 to July 2013, his research speciality at Southern Cross Equities and its acquirer, Bell Potter Securities, was Healthcare and Biotechnology. During this time, he covered a variety of established healthcare companies, such as CSL, Cochlear and Resmed, as well as numerous emerging companies. Stuart was a Healthcare and Biotechnology analyst at Baillieu Holst from October 2013 to January 2015.
– After 15 months over 2015–2016 doing Investor Relations for two ASX-listed cancer drug developers, Stuart founded NDF Research in May 2016 to provide issuer-sponsored equity research on ASX-listed Life Sciences companies.
– In July 2016, with Marc Kennis, Stuart co-founded Pitt Street Research Pty Ltd, which provides issuer-sponsored research on ASX-listed companies across the entire market, including Life Sciences companies.
– Since 2018, Stuart has led Pitt Street Research's Resources Sector franchise, spearheading research on both mining and energy companies.

Nick Sundich is an equities research analyst at Pitt Street Research.

– Nick obtained a Bachelor of Commerce/Bachelor of Arts from the University of Sydney in 2018. He has also completed the CFA Investment Foundations program.
– He joined Pitt Street Research in January 2022. Previously he worked for over three years as a financial journalist at Stockhead.
– While at university, he worked for a handfu he worked for a handful of corporate advisory firms.

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