



## Building an ever-growing economic moat

Intelligent Monitoring Group (ASX: IMB) is Australasia's largest independent security monitoring provider. IMB has an innovative and technology focused portfolio of security and safety brands servicing customers across Australia. The company has a robust competitive edge over its peers owing to its A1-grade products, diversified client base spanning multiple verticals, vast network and a strong financial position.

### Solid momentum over the last three years

Since 2021, IMB has undergone a transformation from the third largest monitoring company in Australia, to the largest through various acquisitions in the past few years. IMB is expecting \$32-32.5m underlying EBITDA for FY24 (representing ~29% growth from FY23). One pertinent reason was the acquisition of ADT which gave IMB exposure to the growing DIY security solutions market.

The company has further cemented its market position during May 2024, announcing the acquisition of Adeva at the start of the month, followed by ACG Integration and Alarm Assets Group. These companies, which were bought at a reasonable acquisition multiple are expected to increase annualised underlying EBITDA by over \$5m.

### A major opportunity remains awaiting

Despite the demand for security services, and the size of the market, it is highly competitive with no player holding a market share of over 10%. We see potential for IMB to carve out a dominant market position given its expertise in commercial and DIY solutions. Only 5% of Australian houses have a monitored solution compared to ~30% in the US. If the Australian market follows the US, IMB is poised to be a beneficiary with its innovative and cost-effective solutions.

### Valuation of A\$0.57–0.75 per share

We reiterate our valuation of 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, based on a blended DCF/RV approach. Please refer to page 8 for the key risks to our thesis.

Share Price: A\$0.43

ASX: IMB

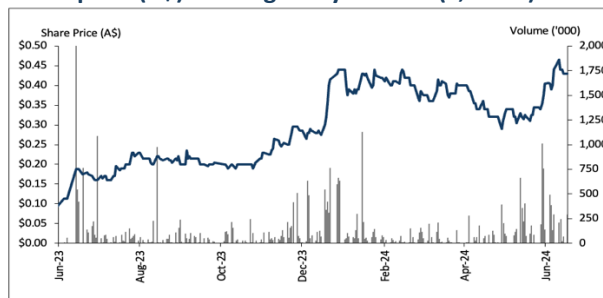
Sector: Technology

18 June 2024

Market cap. (A\$m)	129.8
# shares outstanding (m)	301.8
# shares fully diluted (m)	330.2
Market cap ful. dil. (A\$m)	142.0
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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**Analysts: Stuart Roberts, Nick Sundich**

**Tel: +61 (0)4 4724 7909**

**[Stuart.Roberts@pittstreetresearch.com](mailto:Stuart.Roberts@pittstreetresearch.com)**

**[Nick.Sundich@pittstreetresearch.com](mailto:Nick.Sundich@pittstreetresearch.com)**



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# Intelligent Monitoring Group

## Re-Introduction to Intelligent Monitoring Group (ASX: IMB)

Intelligent Monitoring Group has an innovative and technology focused portfolio of security and safety brands servicing customers across Australia. The company's brands sit under three segments:

**Monitoring** – which provides home-monitored security systems through the Monitoring Excellence and Threat Protect brands. Between IMB's 2015 reverse listing and 2021, the company was known as 'Threat Protect'. In 2021, however, IMB adopted its present name to reflect the fact that its portfolio had grown from just having one brand. The Monitoring segment was responsible for over 80% of IMB's revenues in FY23.

**Protective Services** – which provides personnel and monitoring services to its customers. Security personnel services range from personal protection for travelling executives to security officers providing protection to retail employees.

**Services** – which provides alarm and video installation, and maintenance services.

### ADT – The biggest milestone of all

IMB has grown its market position through M&A activity. The most notable deal was the acquisition of Tyco Australia (operating under the ADT brand in Australia and New Zealand). The ADT acquisition took IMB from third largest independent security monitoring provider to the number one independent player in the market. The ADT acquisition brought the number of monitored security lines under the company from 70,000 to 180,000, added 340 staff and A\$95m in annual revenue to the company, and bolstered its DIY (Do-It-Yourself) home security offerings.

Ever since the deal was closed in August 2023, it has been nothing short of a runaway success. The group's revenue increased from A\$11.6m in the first half of CY24 to A\$55.7m in the second half, while EBITDA increased from A\$1.7m in H1 2023 to A\$14.2m in H1 2024. \$11.7m of the latter figure came from ADT. For FY24 (the 12 months to 30 June 2024), IMB is expecting \$32-32.5m in underlying EBITDA, compared to \$29.8m in FY23.

### The market opportunities on the cusp of IMB's fingertips

The security market is highly lucrative. It is a defensive market - resilient to economic conditions, as security solutions are adopted for the prevention of crime and other misdemeanours. There are varying estimates of the size of the security market in Australia, although we used data from Statista and Apollo Research which measured it to be ~US\$4bn. Of this, the home security market accounted for US\$0.5bn and the commercial security market was worth US\$3.5bn. Nonetheless, the industry is highly competitive – the leading four companies barely have a third of the market, and no company has over 10% of the market. We see potential for IMB to carve out a substantial market share for itself, given its portfolio of solutions which cater for several market trends.

**DIY solutions:** It is true that Australians have been slow to adopt security cameras and alarm systems with only 32.5% relying on the former and only 16% on the latter. With the rise of smart home security solutions, there are more sophisticated ways now to protect personal property as opposed to just

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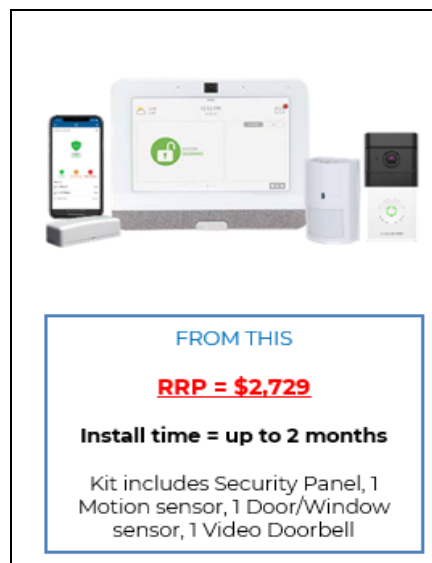
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## Intelligent Monitoring Group

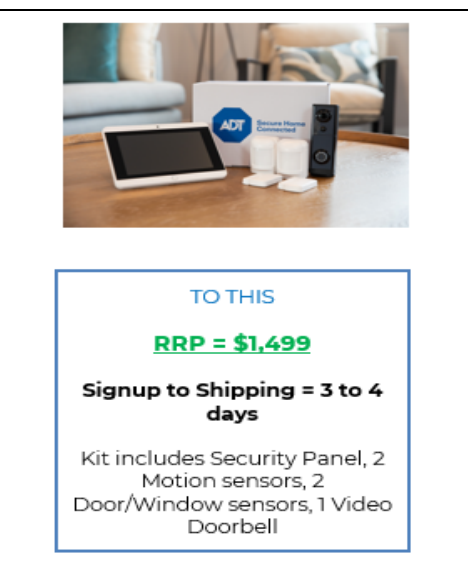
locking doors or installing gates and fences. But the introduction of new solutions delivering greater value for money (less cost but better protection) will open up the market to a demographic that previously may not have considered their own security solutions (Figures 1 and 2). Enabling such systems are the shutdown of the 3G network and rollout of advanced 4G and 5G networks, not to mention IoT technology, AI and video analytics.

Figure 1: ADT Legacy System (JCI Hardware)



Source: Company

Figure 2: New ADT Secure Home Connected DIY Solution

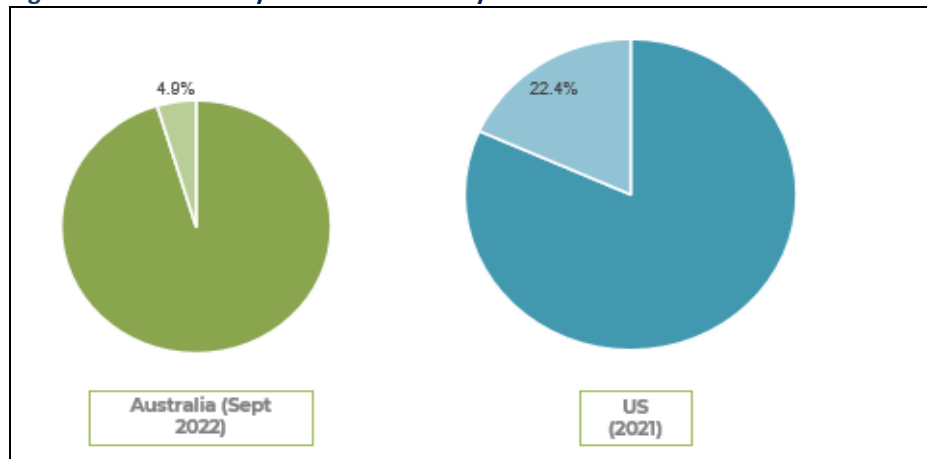


Source: Company

*In Australia, less than 5% of houses have a monitored security solution. In the US, this is over 20%.*

In Australia, less than 5% of houses have a monitored security solution. In the US, this is over 20% and we see potential for Australia to catch up (Figure 3). The catalyst in the US was indeed the introduction of DIY systems that deliver better value for money. Although there is a long way for the market to catch up, the ADT solution in Figure 2 is the first of its kind in Australia, and the product was well received by the market, with initial shipments selling out.

Figure 3: Professionally Monitored Security Penetration of Homes and Businesses



Source: Company, Pitt Street Research



# Intelligent Monitoring Group

There are two further market opportunities for IMB: Commercial and Aged Care.

**Commercial:** In the three years before IMB acquired ADT, previous management pulled back revenues from commercial installation and security services. In the last full year of ADT Commercial, the business contributed >\$30m of revenue. IMB is gradually reviving the commercial side of the business, given the opportunity. The current market size is estimated to be approximately A\$5b and expected to grow at 10% pa – due to increased crime, increase in construction industry, use of IP cameras, increasing fire regulations, and IoT based security systems.

**Aged Care:** ADT has created a standalone division inside ADT to cater for the Aged Care market. This does not just include Australians in Residential Care (of which there are 191,000 of them), but also using Home Care and Home Support (there are nearly 1m between these two). This market is currently two thirds the size of the monitored security industry by user numbers but will surpass it significantly in the next five years and continue to grow at a forecast 7.2% until 2052. The catalyst for this is the retirement of Baby Boomers, as well as ever-increasing government spending on Aged Care.

## IMG's recent progress and acquisitions

Intelligent Monitoring Group has continued to bolster its portfolio, making three acquisitions in the month of May 2024: Adeva, AGC Integration and Alarm Assets.

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### Adeva

Adeva is a national security provider that was founded in 2013 and provides premier security services and data management technologies. It serves both the commercial and home security markets with products including intercoms, CCTV, personal safety alarms and commercial payment solutions. Adeva has a national footprint, with offices in every major city, as well as in Auckland. Adeva prides itself on servicing a wide range of sites (including but not limited to retail, hospitality, healthcare, childcare, fitness, industrial and construction sites) as well as its level of customer support and global technology partners.

IMB reached a deal to buy Adeva for \$2.5m, consisting of \$0.5m in cash and \$2m in shares in IMG's subsidiary Mammoth Security. IMB expects this deal to add \$9m in revenue and \$0.8m EBITDA in FY25, which would represent an EV/EBITDA multiple of just 2.8x.

As part of the deal, IMB will work with Adeva's founders Adam Woolston and Evan Comb to resurrect the Signature Security Brand. This brand was acquired for \$171m back in 2011 and had ~90,000 customers at the time but was retired and merged into ADT in 2017. IMB intends to create a significant second full-service security business with the brand name Signature Security by combining Adeva and its 40 national security technicians with the existing customer base of IMS. Signature Security will operate independently and become the second largest wholesale customer of IMS (IMG's monitoring subsidiary that has 15,000 direct customers).



# Intelligent Monitoring Group

## AGC Integration and Alarm Assets

Less than a month after unveiling the Adeva acquisition, IMB announced the acquisitions of AGC Integration and Alarm Assets Group (AAG). The company raised \$19m in a Placement to fund these acquisitions.

Established in 1998, AGC is an enterprise-focused security provider that offers physical solutions such as IP Video Surveillance and Access Control, backed by technicians and service management staff. It boasts a customer base including NSW Parliament, NextDC, Sydney Airport and Westpac. AAG is a diversified provider, offering home and commercial security services, including the installation, maintenance and monitoring of such systems. It was founded in 1997 as part of a merger of two companies and is based in Perth's northern suburbs. It too has a blue-chip client base including government clients and ASX 100 companies.

These acquisitions add more than 35 skilled technicians to IMB, providing ability to unlock capacity for growth in IMG's commercial business. The pair of companies are expected to deliver additional proforma FY24 EBITDA of \$5.7m, which (like the Avera deal) represents 2.8x EV/EBITDA. They will also help in the long-term goal of returning the commercial business to historical levels of \$125m in revenue<sup>1</sup>. Importantly, this deal will also enable the company to refinance its existing debt arrangements, along with those of the companies that are being acquired.

*These acquisitions add more than 35 skilled technicians to IMB, providing ability to unlock capacity for growth in IMG's commercial business.*

## The top and bottom lines will only get better

Although these acquisitions will not be reflected in the FY24 results, the ADT deal will. IMB has told investors to expect underlying FY24 EBITDA of \$29.8m, which equated to an annualised EBITDA of \$31m (to account for the fact that IMB only owned ADT for 11 of the 12 months). This was up from \$24.8m in FY23. In mid-May 2024, the company updated this expectation to \$32-32.5m and \$33.5-34m on an annualised basis (i.e. adjusting the figure for what it would have been if ADT had been IMB-owned for all 12 months). Compared to FY23, EBITDA would be 29-31% higher if replicated in the company's audited results.

We expect FY25 to be an even better year for the company as AGC and AAG are integrated into the group. AAG has an EBIT margin of 16-34% and its install business has been growing for the last three years. Vertical integration can expand ADT's penetration, particularly in AAG's home state of WA. Both companies' stand-alone operations will reduce operational expenses, and IMB will benefit from having key operational personnel from both businesses to see that the growth continues.

<sup>1</sup> Figures from unaudited FY2012 from Signature Security. \$74m was from Installation services and \$51m was from other services.



*We reiterate our target valuation of A\$0.57 in our base case and A\$0.75 in our bull case.*

## Our valuation of Intelligent Monitoring Group

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. We reiterate our target valuation of A\$0.57 per share in our base case and A\$0.75 per share in our bull case (Figure 4). We intend to update our valuation once the company releases its FY24 results.

**Figure 4: Composite valuation for Intelligent Monitoring Group**

BASE CASE		
Base Case	Weights (%)	Share price (A\$)
DCF	50.0%	0.651
Relative valuation	50.0%	0.488
<b>Composite Value</b>		<b>0.570</b>
Current Price		0.430
<b>Upside/ Downside (%)</b>		<b>31.9%</b>

BULL CASE		
Bull Case	Weights (%)	Share price (A\$)
DCF	50.0%	0.940
Relative valuation	50.0%	0.567
<b>Composite Value</b>		<b>0.753</b>
Current Price		0.430
<b>Upside/ Downside (%)</b>		<b>73.3%</b>

*Estimates: Pitt Street Research*

## Catalysts for a re-rating of Intelligent Monitoring Group

We believe the following factors can contribute to the re-rating of the stock in the direction of our valuation range:

- The company achieving (and perhaps exceeding) its EBITDA guidance for FY24, and/or reporting revenue growth at its annual results due in August.
- Thereafter, continued growth into FY25 and beyond will be a catalyst for the creation of shareholder value. This could occur through further acquisitions and/or through organic growth – that is to say, growth from the businesses it already has.
- Future acquisitions that can be as value-accretive as ADT has been - this would help attract greater investor attention.





# Intelligent Monitoring Group

## 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 handful of corporate advisory firms.

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