

Allied takeover of G4S: the new global leader of security services

Allied Universal – privately owned

G4S (G4S.L) – market cap as of 5th March 2021: £3.76bn

Introduction

After the end of the U.S. bidder's drawn-out takeover battle with Canada's GardaWorld, whose last bid was £3.7bn or 235p-per-share, G4S has agreed to a £3.8bn or 245p-per-share takeover offer from Allied Universal, which is backed by the Canadian pension fund Caisse de Dépôt et Placement du Québec (CDPQ) and Warburg Pincus. Stephan Crétier, GardaWorld's CEO, was not ready to overpay for G4S stating that there are less risky deals opportunities elsewhere. The acquisition will create a global security behemoth with 760,000 employees and combined revenues of \$18bn. The new company will be one of the world's largest employers in the private sector.

According to Refinitiv, the possible deal will be among the top ten largest UK take-private deals in the last five years, just behind Advent International's £4bn purchase of Cobham, and private equity consortium's \$6bn acquisition of satellite company Inmarsat.

About Allied Universal

Allied Universal is an American security services company with headquarters in Santa Ana, California. The company was set up in 2016 through the merger of AlliedBarton Security Services and Universal Services of America. Both companies were backed by notable private equity firms: AlliedBarton was a portfolio company of Wendel, while Universal Services was a portfolio company of Warburg Pincus and Partners Group. The rationale behind the deal was to reduce operations costs by combining best practices and expertise of the two industry leaders.

Allied Universal began operating under the new name in February 2017 and now offers a wide range of services and products for security and janitorial. In 2019, Wendel, a French-based investor, sold most of its majority stake in the company to CDPQ and Warburg Pincus for more than \$700m. Allied Universal is the largest security services company in the United States with £6.2bn of revenues in 2019 FY, and has more than 250,000 employees as of January 2021.

Allied runs its operations in more than 50,000 sites around the world and is divided into several divisions such as Allied Universal Technology Services, Allied Universal Event Services, Allied Universal Security Services and Allied Universal Risk Advisory and Consulting Services. The main products and services Allied offers to its customers are manned guarding, security consulting, investigations, access control, intrusion detection, video surveillance and general janitorial services. In 2019, Allied launched HELIAUS, a platform that provides clients with real-time data and trend analysis for workforce management.

About G4S

G4S plc is a British multinational provider of security services headquartered in London. The company was formed in 2004 when the Danish Group 4 Falck merged with the British Securicor. Since the merger, the company has entered into several transactions to acquire smaller competitors in the security services industry. During the second half of 2011, G4S tried to acquire the Danish ISS A/S for £5.2bn. The deal would have created the world's largest

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facilities management company but was then dropped when several shareholders expressed concerns over the takeover strategy and the size of the deal.

Today, G4S is the largest security company by revenues and operates in more than 90 countries. The company has more than 570,000 employees and offers a wide range of services including the supply of security personnel, surveillance devices, response teams, and safe prisoner transportation. G4S has been involved in several controversies such as serious misconduct in child custodial facilities, use of immigrant detainee labour in jails, and allegations of police mobile data manipulation. In December 2016, more than 600 prisoners took part in a riot at HM Prison Birmingham, a facility managed by G4S. The riot was considered the worst in Britain in the last 20 years and G4S was accused by several MPs of operating the prison with insufficient personnel.

During the first half of 2020, the company registered more than £3.35bn of revenues, resulting in a 1.5% decrease from the £3.40bn of the first six months of 2020. Overall, EBITDA reached £187m, a £m decrease from the results of 2019. Operating Cash flow for the period benefited from more than £150m of tax deferrals and reached £364m (£164m in 2019), while Free Cash Flow amounted to £178m (- £51m in 2019). Complete data for all the 2020 FY are still not available but the company published a press release stating that financial results have been strong also in the second semester of 2020.

Industry Overview

The global security services systems and solutions industry is a very niche industry, with a large opportunity for growth. The market was valued at US\$257.9bn in 2019 and is expected to reach approximately US\$400bn by 2024, with a CAGR of 9%. The main players within this concentrated market include Securitas, G4S, Allied Universal, Tops Group Total Security Solutions and Brinks Home Security.

The global security services systems and solutions market is segmented based on the region, the product, the service, and the end-user. Concerning the regions, the APAC and the Americas dominate the market, controlling between the two more than 70% of the market. The reasons behind these positions are the required fire protection safety regulations in the Americas and the strong economic development that APAC has seen in terms of its infrastructure, such as its airports and highways. Europe is then the third-largest, controlling approximately 25% of the market, with the rest of the world controlling about 5%. The main products of this industry, such as entrance control, wireless systems and video surveillance are often combined with specific services, such as fire protection services and security systems integration. Lastly, the end-user is segmented into multiple groups, including commercial, industrial, banking & finance and government. The key factors that have an impact on this market include crime rates, global terrorist activities changing consumer awareness and security concerns, together with a higher willingness to pay for security systems.

Moreover, the integration of artificial intelligence and deep learning into home security systems and the proliferation of smart city efforts around the world is creating a huge growth opportunity for the security solutions market. One of the various challenges that service providers are facing nowadays is the rising difficulty to maintain the privacy of information through efficient cybersecurity measures and secured passwords. The increased implementation of the internet of things (IoT), together with the surge in the use of advanced virtualization and cloud computing platforms, is expected to grow the access control services market, allowing customers to maintain their security status “through vital credentials accessed via a host system.”

Regarding the M&A activity in this industry, the M&A deals that take place usually occur to expand one’s market share. Synergies include but are not limited to cost synergies such as shared resources and information, revenue synergies such as reduction of competition, and financial synergies.

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Deal Structure

After G4S' initial rejection of a £2.95bn, approximately \$4.2bn, bid that was put forward by Allied Universal, G4S' board has now accepted Allied Bidco's proposal, valuing the company at £3.8bn, approximately \$5bn. Allied Bidco, the company that placed the final offer, is a newly founded corporation created solely to implement the offer, and it is controlled by Allied Universal. The deal between Allied Universal and G4S is sought to be paid fully in cash, with Allied Bidco paying 245 pence per G4S share.

The cash offer of 245 pence per share represents approximately a 68% premium to G4S' closing price on September 11th, 2020, the final business day before the offer period and a 91% premium to the 128 pence 3-month weighted average closing price on September 11th 2020.

Although the deal structure has been laid out and Allied Bidco has cleared the U.S. antitrust review, it still needs to acquire all of the other compulsory regulatory and antitrust approvals. The deal is expected to close by the end of Q1 and is subject to shareholder approval. It is also worth mentioning that the board has decreased the threshold of shareholder approval for the bid from 90% to 75%. Lastly, GardaWorld's decision to not increase its bid of 235 pence per share caused the annulment of the auction for G4S and the board's approval of Allied Universal's bid at 245 pence per share..

Deal Rationale

Allied Universal has a not unimpressive record of acquisitions in the last decade. In fact, with the acquisition of 70 companies before G4S, Allied successfully turned its \$12m business from 1996 to a more than \$8bn business today, having a fond strategy for making the most out of each M&A deal. The acquisition would reinforce Allied's business operations in the U.S., U.K. and expand them in Europe. Allied believes that the two security companies could surely have business-enhancing synergies as Allied is specialised in emergency response, executive protection, risk consulting while G4S complements these by specialising in end-to-end security corporate risk solutions. In fact, Allied is expecting to increase its annual revenues from \$8.4bn in 2019 to an estimated \$18bn, with G4S bringing in \$7.8bn (from 2019), hence making the most of its combined assets, which are mainly the wide-ranged security solutions and the global presence in 85 countries.

The new entity will be capable to lead the industry in developing new security solutions for ever-changing needs in an increasingly fast-changing world. These latest needs require the implementation of newly developed electronic technologies, such as IA and VR based surveillance, risk-evaluation, and response software, in which Allied is increasingly investing on, and the acquisition of G4S will support Allied's innovation by providing the rich hard assets such as existing technologies and patents, personnel, distribution routes, and client base needed to make these operations successful. Allied's lead would be supported by a workforce larger than 750,000 professionals (of which about 550,000 coming from G4S), in which the company is committed to investing in improved training programs to raise the standards in the industry. The American security firm only mentioned two problems so far: the listing of G4S, which it intends to cancel, and the prison business, in which G4S has had difficulties. However, the company is self-reliant in its capacity of achieving these goals due to its experience in business integration and transformation programmes from the many previous acquisitions. Hence, Allied is confident that the acquisition of G4S will compensate, maintaining both companies' momentum for growth and transformation. Should the deal be a success, Allied is looking at great opportunities for horizontal expansion in the security industry, enriching its security solutions catalogue also with drone technologies, building information modelling and more in addition to the innovative products mentioned earlier.

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Market Reaction

Allied's shares jumped on the first offer made in September 2020, and also jumped with the last bid despite being more than \$1bn higher than the first bid, signing the end of the bidding war with GardaWorld. The market seems to believe in highly improved prospects of Allied's profitability after the acquisition.

As for G4S, its stock fell by 33% on the year ahead of September's initial bid from GardaWorld as the market thought the bid price too low. However, since then the price increased by 84% through the bidding war, where G4S valuation increased considerably as it privately disclosed more information on current operations. Lastly, the stock fell 10% as the auction for G4S was cancelled due to GardaWorld's withdrawal from the auction.

Advisors

G4S has been financially advised by Citigroup, J.P. Morgan, and Lazard, and legally advised by Linklaters. Instead, Allied's financial advisors were Morgan Stanley, Credit Suisse, and Moelis & Company, while Cleary Gottlieb Steen & Hamilton, Freshfields Bruckhaus Deringer, and Kirkland & Ellis acted as its legal advisor.

TAGS: G4S, Allied Universal, GardaWorld, American, US, UK, Safety, Security, Services, Technology, Morgan Stanley, Credit Suisse, Moelis & Company, Citigroup, J.P. Morgan, Lazard, hostile takeover, Warburg Pincus, take-private

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