

ALARM
FINANCIAL
SERVICES, INC.

Jim Wooster, President

“The oldest funding company in the industry”

AFS, INC.

Background

AFS, Inc. provides financing for operating alarm dealers throughout the US.

We are the industry's oldest funding company and are run by alarm industry dealers and veterans.

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Financing Programs

- ✓ **Term Loans**
- ✓ **Lines of Credit**
- ✓ **Bulk Acquisitions**
- ✓ **“50/50” Hybrid Financing**
- ✓ **Acquisition Services**

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Time to Sell?

Time to Buy?

What are my options?

What Are My Options?

- **Sell some accounts**
- Sell my company
- Buy out partner
- Buy some accounts
- Buy a competitor
- Open a new office
- Go into “maintenance mode”

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QuickTime™ and a decompressor are needed to see this picture.

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Alarm Funding Associates

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Selling is not the only exit strategy

- **Transfer business with Buy-Sell Agreement**
- **Private Annuity**
- **Self-Cancelling Installment Note**
- **Gifting Business**
- **Gift business to trust**
- **Family Limited Partnership**

Source: Laurel Financial Consultants, Inc

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Taxes may determine strategy

- C-Corp -- Double Tax!
- S-Corp
- Sole Proprietorship
- LLC
- Partnership

Stock Sale vs. Asset Sale

Consult with your Accountant and Attorney

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“Run your business as if you were going to keep it forever and sell it tomorrow.”

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What do buyers and lenders look for?

- ✓ Good Accounts
- ✓ Good Contracts
- ✓ Good Planning
- ✓ Good Service
- ✓ Good Reporting
- ✓ Low Attrition

NO SURPRISES!

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Good Accounts

- **ACH/Credit Card**
- **Consistent Payment Histories**
- **Customer Investment**
- **Credit Scores**
- **RMR isn't too high or too low**
- **Fire, other services**



Good Contracts

- **Limit of Liability**
- **Indemnification**
- **3-day right of rescission**
- **Minimum 3-yr with auto-renewal**
- **Assignable**
- **Ability to increase pricing**

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Good Planning

- **Geographic concentration**
- **Employees & Subs under non-solicitation**
- **Consistent equipment**
- **Program panels to a line you own**

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Good Service

- **Good communication setting service calls**
- **Review Central Station Reports**
- **Stay in touch with your customers**
- **Sell upgrades and enhanced services**

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Good Reporting

- **Financials**
- **Profit Center Reporting** (Install, Service, Monitoring)
- **Attrition Report**
- **Cancellation Report**
- **Central Station Audit**

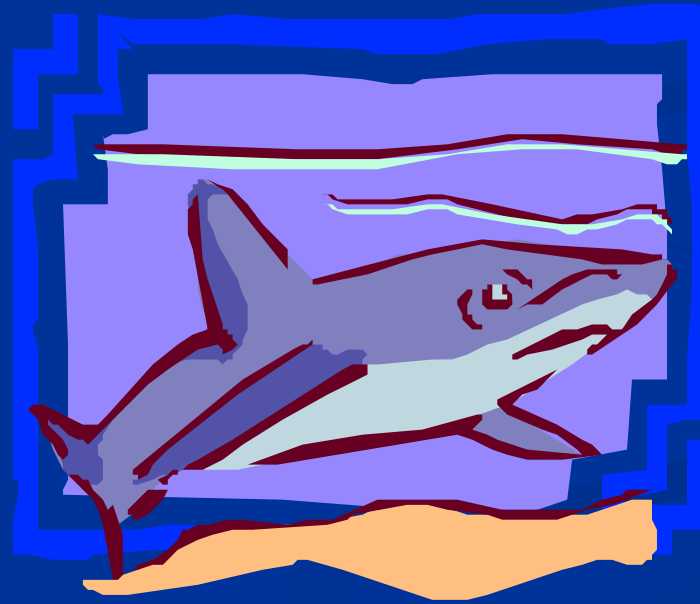
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Low Attrition

- **Call customers once a year**
- **Sign new owners after moves**
- **Sell fire**
- **Sell service policy with Tech's visit**
- **Sell correctly - Beacon, customer investment**
- **Review Attrition & Cancellation Reports**

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Attrition...The Biggest Bite!



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The Impact of Attrition

\$1,000 RMR for 10 yrs

With 8% Attrition = \$90,507

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The Impact of Attrition

\$1,000 RMR for 10 yrs

With 8% Attrition = \$90,507

With 12% attrition = \$72,150



How to keep attrition under control...

- Call customers once a year
- Be on top of moves
- Sell fire
- Sell service policy with Tech's visit
- Sell correctly - Beacon, Customer investment
- Good reporting (monthly, profit centers or segment)
 - Financials
 - Attrition report
 - Cancellation report
 - Central Station audit

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Why They Leave...

PROBLEM	Controllable	Uncontrollable
Affordability	42.1%	
Service	15.7%	
Billing	7.9%	
Sales Comm.	5.7%	
Bankruptcy	4.4%	
False Alarms	3.8%	
Moved		8.8%
No need or use		5.3%
Illness		4.4%
Death		1.3%
Other		0.6%
Total	79.6%	20.4%

Source: SLP Capital



Capital Markets for Small Dealers

- Credit Cards
- Home Equity Loans
- Vendor Terms (net 30, 45)
- Friends and Family
- Sell Accounts - Dealer Programs, Bulk Sales

How To Finance an Acquisition

Accounts	= 296
Average RMR	= \$25
Seller's RMR	= \$7,400
Purchase Multiple	= 30x, 10% Holdback
Purchase Price	= \$200,000
Interest Rate	= 9.25%
Loan Term	= 60 months
Loan Payment	= \$4,175

Borrow to Grow

\$200,000 Loan

- Creation Cost = 27x RMR
- RMR Added = \$7,400
- RMR after 8yrs = \$4,000 (8% attrit)
- Sale Value = \$128,000 (32x)
- Net Monitoring Rev = \$300,000 (55% Margin)
- Loan Repayment = (\$263,000)
- Profit = \$165,000

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Value of a Customer Exclusive of RMR

	<u>Profit</u>	<u>10 yrs</u>
Referrals - 1 per yr resulting in sale	= \$100	
Service - 1 per yr x 10 yrs	= \$20	
Add-On - Average of \$50/yr	= \$25	
Value of each account re market penetration/yard sign, etc.	= \$20	
Goodwill	= <u>\$20</u>	
	\$185	\$1,850

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How Are Companies Valued?

- Sale Multiples = 15x - 40x +
- Number of accounts
- Average RMR
- Special value to Buyer
 - Keep competitor out
 - Open New Market
 - Easy Fold-In
- Net Free Cash Flow

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➤ **Sale Multiples = 15x - 40x +**

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Establish Funding Relationships Now

- √ Better positioned when credit tightens
- √ Jump on acquisition opportunities
- √ Forces good practices
- √ Forces good reporting
- √ Proven track record = favorable terms

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Benefits of Preparing Ahead
THE FUTURE IS TODAY!

- No undoing or redoing
- You'll get a better price
- Accelerate the deal
- Your company will be better off – even if you never sell

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Questions?

Comments?