

The UK Security Sector



Cyrus Investment Management LLP Sector Intelligence Report

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Sector Overview

Direct Employment
71k

Turnover
£8.5 bn

Exports
£3.4 bn

Apprenticeships
2,100

5Y Turnover Growth
>100%

5Y Productivity
Growth
46%

The UK security industry provides a broad range of services, many essential to ensure the security of a population's everyday life. These services range from cybersecurity, that protects your online banking, to security doors protecting your home. The industry supplies solutions to all parts of the society including government, private and public companies, and the private individual.

The sector consists of ca. **11,500 companies**, which directly **employs ca. 71,000 people** in the UK (2015) and a further 41,000 people have indirect security sector jobs. In the UK the security sector has an estimated **annual turnover of £8.5 billion**, 40% of which is generated from exports.

The sector is one of the top performing in the UK, with 6% growth in 2014. and for the period 2010-13, **the sector grew 5x faster than the UK economy as a whole.**

Sector Growth

The UK security sector has had an almost unparalleled growth over the last few years, with revenues growing by just over 140% for the period 2009-14, 5x faster than the UK economy. Exports has been one of the major driving forces behind the growth, increasing from £1.6 bn in 2009, to £3.4 bn in 2014, just over 110% growth. In 2014 the sector revenues grew by 6%.

The security sector has also outpaced the UK economy in terms of productivity growth. For the period 2009-14 the sector gross value added (GVA) per worker increased by 24%, compared to the UK economy output per worker which saw a much humbler growth of 4%. In absolute terms, the UK security sector's GVA increased from £2bn in 2009, to £5bn in 2014.

The UKTI Defence & Security Export Statistics for 2014 expects steady growth in the global security market over the next five years with an annualized growth of over 10% for UK security exports. The top performing sub sectors are expected to be 'Application security' and 'Identity and Access Based Services'. Annual growth is estimated to be over 45% by 2019.

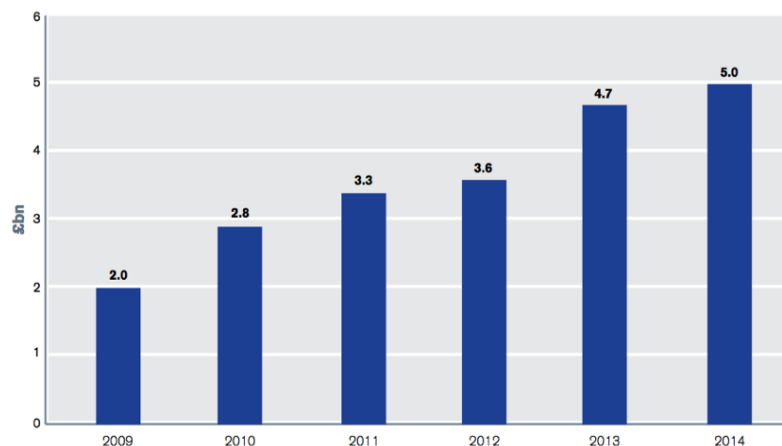
Graphs source: ADS UK Security Industry Outlook

Predicted UK Security (Exports) Market Growth - All Sub Sectors (%)

Security	
	%
2014	10.2
2015	10.7
2016	11.2
2017	11.7
2018	12.4
2019	12.8

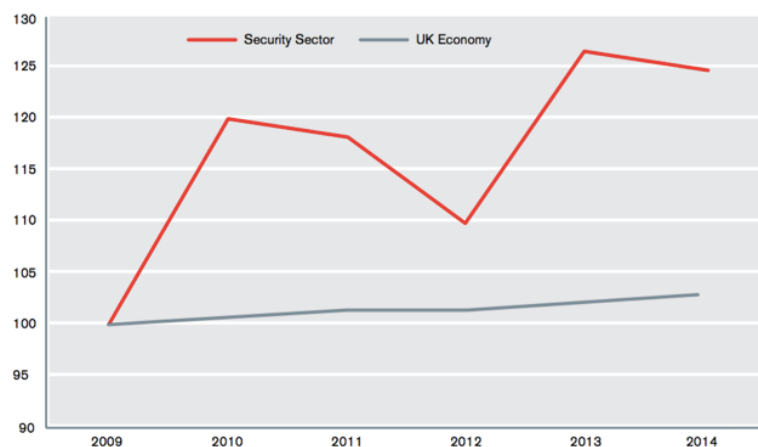
Source: KMatrix

UK Security Sector GVA is contributing to UK growth, £bn



Source: CEBR, ADS

Security Sector GVA per employee & UK output per worker



Source: CEBR, ADS and ONS

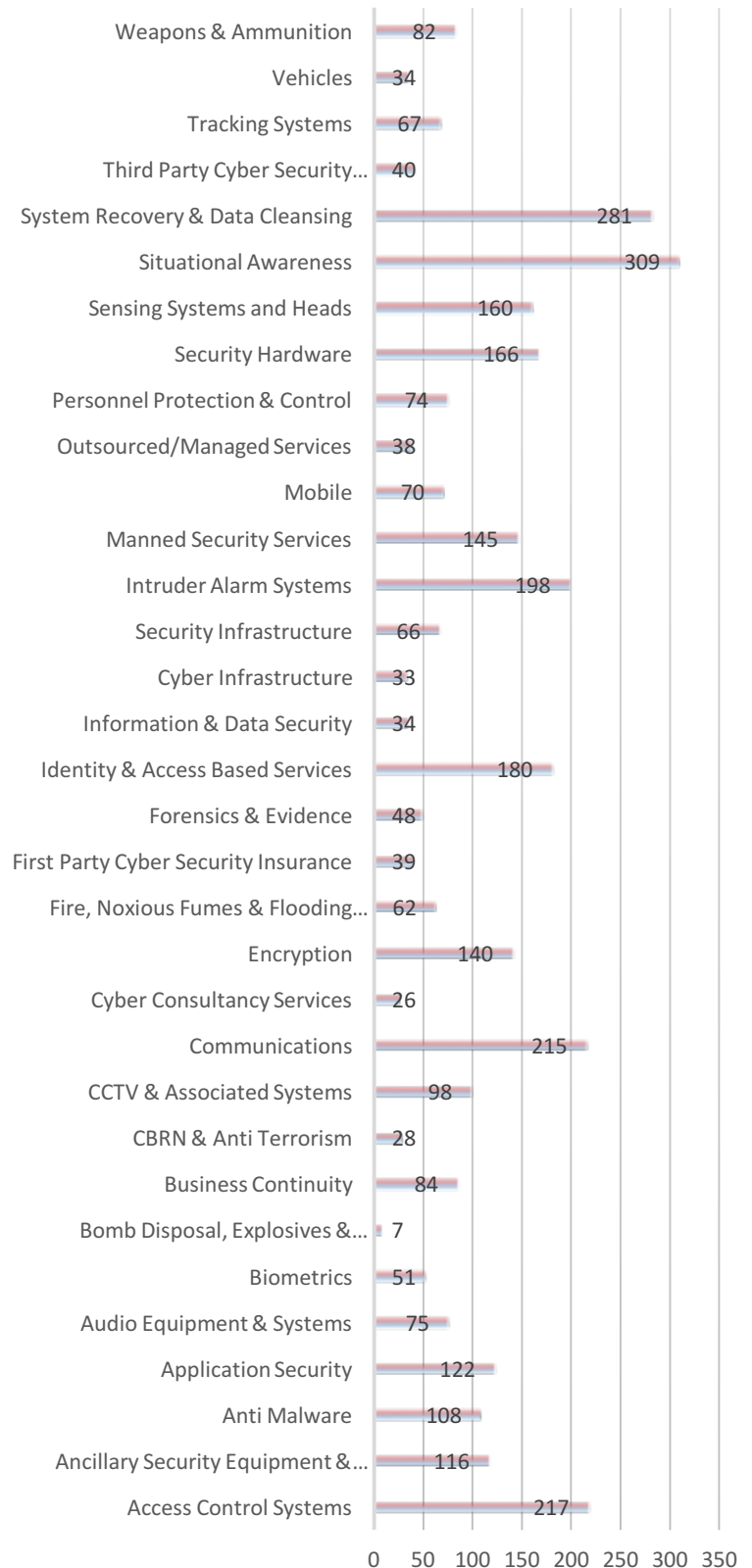
Sector Exports

Export is likely to be one of the key drivers for the security sector moving forward. The chart on the right shows the division of total export value by product. CIM's 2015 acquisition Rhino Doors fits in the category of 'Access Control Systems', one of the most important and highest value generating exports within the sector. Access Control Systems are estimated to generate £281m per annum, 8% of the total export value of ca. £3.4bn.

Companies are citing Latin America, Middle East, and Africa as the regions of primary focus over the next few years. These are regions where physical security plays the outmost importance, where kidnapping, burglary and terrorism are imminent threats.

2015 was an extremely violent year across the globe, further unpinning the importance of physical security. This is a trend not likely to subside in the near future and the demand for high quality, reliable British made security products is likely to persist.

UK SECURITY EXPORT BY PRODUCT TYPE 2014 (£M)



Summary and Outlook

The UKTI Defence & Security Export Statistics for 2014 expects steady growth in the global security market over the next five years with an annualized growth of over 10% for UK security exports. The top performing sub sectors are expected to be 'Application security' and 'Identity and Access Based Services'. Annual growth is estimated to be over 45% by 2019.

Furthermore, companies operating in the UK security sector remain very positive of the future growth with 56% of companies anticipating a larger than 10% growth during the next 12 months according to an ADS/GfK NOP Survey made in 2015. Of these companies 31% expected a 10-24% growth, far above the Bank of England's UK growth target for 2016 of 2.5%. This optimism will be an important growth factor in the sector and the vast majority, 70%, of these companies are planning on increasing investment in development, staff and machinery, hence enabling increased capacity and wider product range from the sector as a whole. This will underpin the UK's increasing marketshare of the global security market.

The survey identifies the following factors as key drivers over the next couple of years:

- Growth of existing business
- New export opportunities
- Growth of UK opportunities.

Top 10 UK Security Export Destinations: 2014 (£M)

Importing country	£M
USA	722
China	451
Japan	230
India	212
Germany	123
Italy	101
France	98
Russia	81
Canada	69
Brazil	67

Source: KMatrix

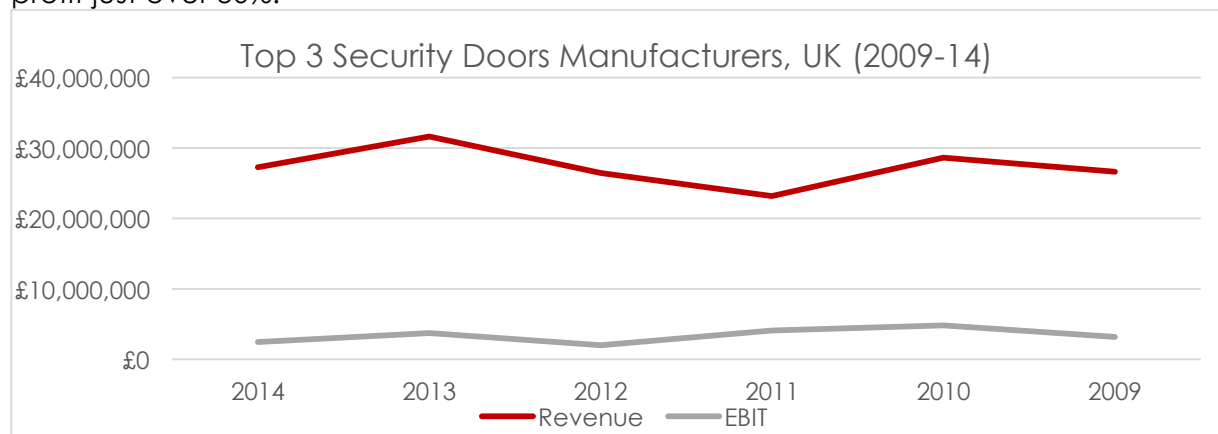


Graphs source: CEBR, ADS, and ONS

The Security Door Sector

In July 2015, CIM entered the UK Security Sector through the acquisition of 'Rhino Engineering Ltd' also known as 'Rhino Doors'. The company is one of the top three high security doors manufacturers in the UK, which supplies products to the banking & cash deposit, government & defense, and airport & aircraft security sectors.

The industrial door sector is currently valued at ca. £174m, in 2014 the top three security doors manufacturers in the UK, collectively had revenues exceeding £27m per annum, and combined operating profits (EBIT) of just below £2.5m. As seen in the figure below, both revenues and EBIT have been quite stagnant over the past five years with only a small overall increase. Rhino Doors has over the period followed this general subsector trend, however been highly profitable with an average gross profit just over 30%.



Because of the lack of growth over the past five years CIM acquired Rhino Doors at an excellent entry value. The current market environment is ideal for restructuring the company and start generating persistent annual growth. The underlying reasons can be summarized as follows:

- The excellent overall security sector outlook, summarized in the section 'Summary and Outlook'.
- The persistent global terror threat throughout 2015 is likely to carry on over the next several years. This will cause an increase in demand for high quality security doors – especially for airport security, where Rhino Doors has a strong product range.
- Low commodity prices. The subsector is likely to benefit from the low commodity prices, hence low cost of materials, that is likely to remain over the next few years.
- Synergies with other CIM portfolio businesses. Rhino Doors is likely to greatly benefit and cut cost through operational, back office, machinery, and personnel synergies with the other companies in the CIM portfolio of precision engineering business operating in the same or similar sectors.
- Access to new management and clients. With the access to new top tier management, Rhino Doors will have an influx of expertise on how to develop its product range, market it, increase sales volumes. In addition, the business will have access and be able to market its products to the clients of other CIM portfolio companies.

Key Risks

The UK security industry is strongly affected by the general market environment and factors that could inhibit growth are:

- Decline in spending by existing customers.
- Uncertain UK economic environment.
- Lack of UK business opportunity.
- Uncertain global economic environment.

Accessing competent workers, engineers and R&D skills is seen as a major concern within the industry. It is estimated that close to a fifth of companies operating in the sector are concerned about accessing the necessary design and engineering skills during the next five years. Apprenticeships are seen as one of the key solutions to this issue and a major driving force to generate sustainable access to the necessary skills and personnel in the long term.

Bibliography

- Center for Economics & Business Research (CEBR)
- GfK NOP
- ADS Group
- UK Defence & Security Export Statistics for 2014



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