

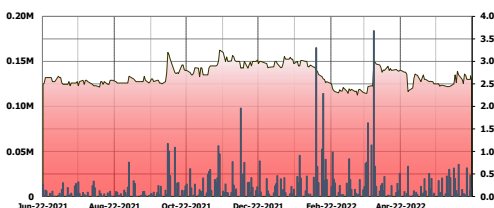
June 23, 2022

SSC SECURITY SERVICES CORP. (SECU-TSXV, \$2.68)

Rating: BUY
Target Price: \$4.50

DEEP VALUE STOCK WITH SOLID ROLL-UP STRATEGY

SSC Security Services Corp.		SECU	
<i>(Currency is CAD unless noted otherwise)</i>			
Last Price (\$)			\$2.68
Target Price (\$)			\$4.50
Return to Target			68%
52-Week Trading Range (\$)		\$2.25 / \$3.40	
Average Daily Volume (90-Day)			18.9K
MARKET INFO			
Basic Shares Outstanding (M)			19.8
Fully Diluted Shares Outstanding (M)			20.7
Market Capitalization (\$M)			C\$53.0
Enterprise Value (\$M)			C\$10.8
Dividend Yield			4.48%
FYE: DEC 31	F2021A	F2022E	F2023E
Sales (\$M)	\$8.9	\$49.1	\$110.0
Adj. EBITDA (\$M)	\$1.3	\$2.5	\$6.8
Adj. EBITDA Margin (%)	14%	5%	6%
MOST RECENT QUARTER		Mar-21	
Sales (\$M)			\$5.5
Gross Profit			\$1.0
Gross Margin			18%
Adj. EBITDA (\$M)			\$0.2
Adj. EBITDA Margin (%)			4%
VALUATION		F2021A	F2022E
EV/EBITDA		8.5x	4.3x
			1.6x
DISCLOSURE CODE:		None	
<i>(Please refer to applicable disclosures on the back page)</i>			
Source: M Partners, Bloomberg, Company Documents			



SSC Security Services Corp. provides physical and cyber security services to corporate and public sector clients in Canada. It provides physical security services, such as on-site security guards, remote continuous camera monitoring, mobile patrol, and investigative services for clients in Canada. The company also provides cyber security services, including managed Security, vulnerability and risk analysis, cyber security consulting, chief information security officer consulting, and cyber security staff augmentation services. The company was formerly known as Input Capital Corp. and changed its name in October 2021.

SSC Security Services Corp. is a physical and cyber security provider that we believe is trading at deep value levels. The Company has been unwinding its legacy canola streaming business and redeploying the capital into security businesses at <5x EBITDA. The Company is debt-free and the business model is capex-light, meaning SECU can continue with its capital allocation strategy via M&A, dividends and buybacks. The stock trades at 1.6x forward EBITDA compared to its peers that trade at 6.1x. **We are initiating coverage on SSC Security Services Corp. with a BUY rating and a \$4.50/share target price based on 7.0x 2023E EBITDA.**

INVESTMENT THESIS

Misunderstood Turnaround Story

Over the last year, SECU has undergone a full restructuring, unwinding its legacy canola streaming business (Input Capital) and acquiring businesses in the physical/cyber security space. The Company started with \$90M+ in cash from the legacy business and has rapidly allocated that capital, now sitting with \$13-20M left to collect. We think the transition has gone relatively unnoticed by the market despite the Company being profitable and growing. Management aims for SECU to reach \$200-300M in annual revenue with \$15-25M in adjusted EBITDA within 3-5 years. With its cash and legacy assets making up the majority of its market cap, we think the stock is due for an aggressive re-rating.

M&A Strategy

SECU has completed three acquisitions thus far, SRG Security Resource Group in February 2021, Impact Security Group in July 2021 and Logixx Security in June 2022. SRG was acquired for \$19.9M using half cash and half stock in February 2021, while beginning the unwinding of its legacy canola streaming business. SRG is a well-established and profitable physical and cyber security business based in Western Canada. SRG’s clients include government organizations, hospitals, airports, utilities and police forces (Figure 2). This business had a \$20M+ revenue run-rate as of FYQ2 with 6% EBITDA margins and is expected to grow 10% YoY. SRG recently signed multiple cyber security contracts including a five-year multi-million dollar contract with a major Canadian utility provider. Impact Security Group was bolted onto SRG in July 2021 for \$1.35M using cash; Impact Security has 215 employees.

Logixx Security was acquired for \$23.95M in cash, implying approximately 3x trailing EBITDA. Logixx operates a physical security company with minimal overlap to SRG’s footprint. Furthermore, there are cross selling opportunities to introduce SRG’s cybersecurity products to Logixx customers. On a pro-forma basis, SECU would have generated \$100M in revenue in 2021 with ~6% EBITDA margins. Given SECU’s pro-forma cash balance of \$16.5M and the remaining \$13-20M to collect from the legacy business, SECU has ample dry-powder to continue rolling up security businesses at 4-6x EBITDA.

Capital Allocation

Besides deploying capital in synergistic M&A opportunities, the SECU management team has been returning capital to shareholders via dividends and share buybacks. SECU currently has a \$0.03/share quarterly dividend, equating to \$0.12/share annually or a 4.5% dividend yield. This represents a

modest 35% payout ratio. Furthermore, the management team has a track record of repurchasing shares using NCIBs and SIBs. Currently, SECU has an NCIB for up to 1.275M shares (10% of its public float) and has repurchased 567K shares since November 2021. Given the management team's focus on return on capital and shareholder value, we are expecting the repurchases and dividend payments to continue.

Valuation

SECU currently trades at 1.6x 2023E EBITDA compared to its peers at 6.1x 2023E EBITDA. We attribute this meaningful discount to the complexity in the story from unwinding of the Input Capital business and the illiquidity of the stock. However, we think that as SECU continues executing on its roll-up strategy, posts ~10% annual organic growth, and exhibits strong quarterly financial results (with a big step change from Logixx), this discount will diminish. We value SECU at a premium multiple of 7.0x 2023E EBITDA, equating to a \$4.50/share target price (representing 68% upside).

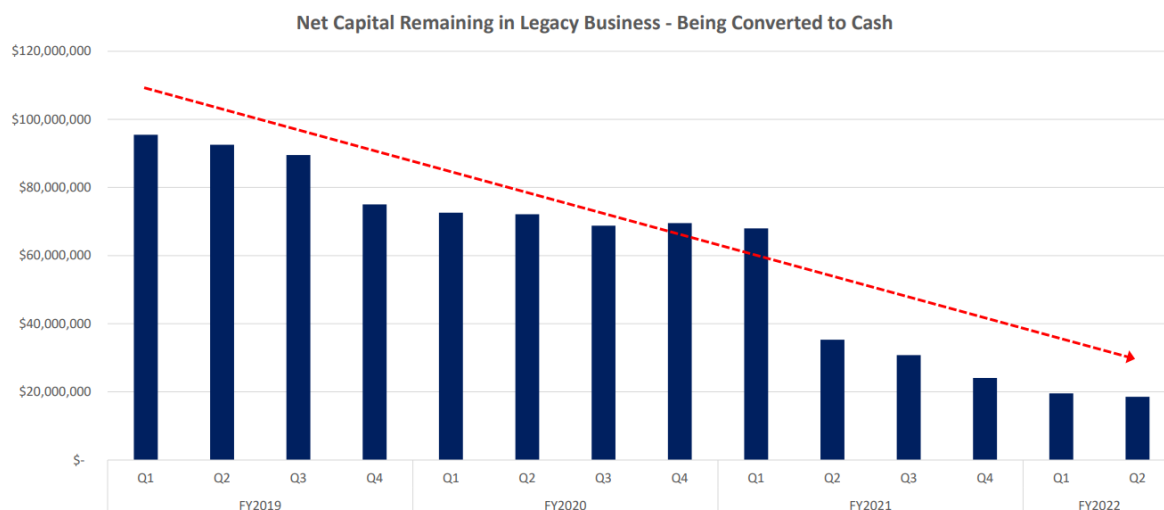


Figure 1: Legacy Assets Conversion (Source: Company Documents)

COMPANY OVERVIEW

History

Input Capital was founded in 2012 to provide canola streaming services to Canadian farmers. The Company amassed \$47M in revenue and \$26M in OCF in 2016, before attempting to sell the Company then settling on unwinding its assets. Input Capital acquired SRG Security Resources in February 2021 and rebranded the Company to SSC Security Services Corp. in September 2021.

Services Offered

Approximately 85% of SECU's revenue comes from physical security services with the remaining 15% being generated from electronic and cyber security services. We are expecting this ratio to shift more towards cyber security in the medium term as its growth will outpace the physical security segment. The various services offered by SECU can be found below.

SRG Cyber Security Services

- Managed Security Services
- Vulnerability & Risk Analysis
- Cyber Security Consulting
- Staff Augmentation Services
- Digital Bodyguard Security
- Cyber Breach Investigation/Recovery Services

SRG Protective Services

- Guard & Patrol
- Security Consulting
- Labour Dispute Security
- GuardVision 24/7

Logixx Security Services

- High Profile Security Operatives
- Event Security & Mobile Operatives
- Low Profile & Concierge Security Operatives
- Undercover & Loss Prevention Operatives
- Mobile Patrol
- Electronic Security Systems

Commercial	Health Care	Government	Events
BASF	Grace Hospital, Winnipeg	City of Regina	Annual Premiers Conferences, BC & SK
Cameco	Manitoba Clinic, Winnipeg	City of Moose Jaw	APEC Summit
CIBC	Misericordia Hospital, Winnipeg	City of Winnipeg	Vancouver International Visa Conference
Cornwall Centre	St. Paul's Hospital, Vancouver	Government of Saskatchewan, IT Office	Juno Awards Regina 2013
Harvard Property Management	St. Paul's Hospital, Saskatoon	Manitoba Hydro	Pan American Games, Winnipeg
Keyera Corporation	Saskatoon City Hospital	Public Works & Government Services Canada	Regina Folk Festival
Manitoba Housing	St. Boniface Hospital, Winnipeg	Royal Canadian Mounted Police	XI World AIDS Conference, Vancouver
Standard Aero	UBC Hospital	SaskPower Corporation	
The Manitoba Museum	Vancouver General Hospital	SaskEnergy Corporation	
Winnipeg Airports Authority		SaskTel	
Yara Belle Plaine			

Figure 2: SRG Client Mix (Source: Company Documents)

MANAGEMENT

Doug Emsley – Chairman, President & CEO : Mr. Emsley has been Chairman and CEO of Security Resource Group Inc. since 2001 and joined Input Capital as CEO in 2012. Mr. Emsley was previously Director, President and Chief Executive Officer of Assiniboia Farmland GP 3 Corp., which was the general partner of Assiniboia Farmland Limited Partnership, a partnership which completed a sale of 115,000 acres of Saskatchewan farmland to CPPIB Assiniboia Inc. and Assiniboia Farmland Holdings LP. Mr. Emsley a director of the Information Services Corporation (ISV:TSX) and Chairman of Sabre West Oil & Gas Ltd. Mr. Emsley is also former member of the Board of Directors of the Bank of Canada and an MBA from York University. Mr. Emsley owns 23.1% of the shares outstanding.

Brad Farquhar – Director, Executive VP & CFO : Mr. Farquhar co-founded the Company with Mr. Emsley and serves as a Director, Executive Vice- President and Chief Financial Officer to the Company. He was previously Vice-President of Assiniboia Farmland GP3 Corp., Assiniboia Farmland Holdings LP, Assiniboia Farmland LP, and Palliser Farmland Management Corp. Mr. Farquhar is a Director of Radicle Group Inc., Luxxfolio Holdings Inc. (LUXX:CSE), and Mongolia Growth Group Ltd. (YAK:TSXV). Mr. Farquhar owns 6.0% of the shares outstanding.

Blair Ross – COO : Mr. Ross has three decades of experience in the private security industry, during which he has built and managed numerous large security operations from the ground up. Blair started his career in 1989 when he co-founded Vision Security and Investigations Inc. In the 12 years that followed, he served

as Vice President, building the company up into a major central and Western Canadian regional service provider with over 1,100 employees. Mr. Ross owns 1.3% of the shares outstanding.

Gord Nystuen – Vice-President : Mr. Nguyen previously worked on special projects at Assiniboia Capital Corp., where he helped create the agriculture commodity streaming model that became Input Capital. He has an extensive background in a variety of senior roles in the Saskatchewan Government, including Vice-President, Corporate Affairs, at SaskPower, Deputy Minister of Agriculture, Chief of Staff to the Premier, Chairman of Saskatchewan Crop Insurance Corporation, and a variety of other roles in transportation, gaming, health, and finance. Mr. Nystuen owns 3.3% of the shares outstanding.

Board of Directors : Doug Emsley (CEO), Brad Farquhar (CFO), David Brown (Corporate Lawyer, former CEO of the OSC), David Laidley (former chairman of Deloitte LLP Canada), Lorne Hepworth (former President of CropLife Canada)

FINANCIAL PROJECTIONS

We are expecting SECU to post \$110.0M in revenue and \$6.6M in adjusted EBITDA in FY2023. The business has low operating leverage given the high salaries expense, posting gross margins of 15-20% and EBITDA margins of 5-7%. While objectively low, the margins are industry leading and there is minimal capex spend to run the business. We are expecting the business to grow revenue organically by ~10% annually, driven by increasing demand and cross-selling opportunities for cyber security products and continuing to push volume in the physical security business. Management has set out a goal of 10-15% adjusted EBITDA growth per share, which will be driven by M&A (including optimizing target company operations), repurchasing shares, and organic growth (winning contracts and cross-selling cyber products). The Company plans to continue operating with zero debt, funding its own receivables, developing new products, and paying out a consistent dividend.

(C\$ Millions)						
Income Statement:	1Q22A	2Q22A	3Q22E	4Q22E	FY22E	FY23E
Revenue	5.9	5.5	11.7	26.0	49.1	110.0
<i>YoY Growth</i>	<i>38%</i>	<i>19%</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>124%</i>
Gross Profit	0.9	1.0	2.1	4.7	8.7	19.8
<i>Margin</i>	<i>16%</i>	<i>18%</i>	<i>18%</i>	<i>18%</i>	<i>18%</i>	<i>18%</i>
Adj. EBITDA	0.0	0.2	0.7	1.6	2.5	6.8
<i>Margin</i>	<i>1%</i>	<i>4%</i>	<i>6%</i>	<i>6%</i>	<i>5%</i>	<i>6%</i>

Figure 3: Income Statement Projections

VALUATION

SECU currently has an EV of \$11M, including the \$13-20M of cash that it will be collecting from its legacy business and working capital from the Logixx acquisition. This implies an 2023E EV/EBITDA of 1.6x, compared to physical security peers at 6.1x and cyber security peers at 15.5x. As per Capital IQ, the average takeout EBITDA multiple for security systems and services is 11.2x (ranging from 7.3x to 17.8x). We note that the peers are highly levered and are not pursuing aggressive M&A programs like SECU, providing a justification for a premium multiple.

June 23, 2022

Company	Ticker	Market Cap (M)	EV (M)	EV/EBITDA			EBITDA Margin (2021)	EBITDA Growth (2021-2023E)
				2021A	2022E	2023E		
Physical/Cyber Security Hybrid								
ADT Inc.	ADT:US	US\$ 5,601	US\$ 15,594	7.0x	6.6x	6.1x	37%	5%
Secom Co., Ltd.	9735:TSE	US\$ 13,786	US\$ 9,179	6.2x	5.8x	6.0x	19%	1%
The Brink's Company	BCO:US	US\$ 2,695	US\$ 5,323	7.8x	6.9x	6.4x	16%	7%
Prosegur Compania de Seguridad, S.A.	PSG:BME	US\$ 989	US\$ 2,364	5.8x	5.0x	4.5x	11%	9%
Zedcor Inc.	ZDC:TSXV	CA\$ 27	CA\$ 44	9.1x	10.3x	7.4x	44%	7%
Avante Logixx Inc.	XX:TSXV	CA\$ 18	CA\$ 32	5.3x	NM	NM	7%	NM
G4S (Botswana) Limited	G4S:BSM	US\$ 18	US\$ 18	6.7x	NM	NM	16%	NM
Average				6.9x	6.9x	6.1x	21%	6%
Median				6.7x	6.6x	6.1x	16%	7%
Cyber Security								
Absolute Software Corporation	ABST:TSX	US\$ 529	US\$ 802	25.1x	15.3x	15.5x	22%	17%
NortonLifeLock Inc.	NLOK:US	US\$ 12,656	US\$ 14,594	10.3x	9.0x	9.5x	56%	3%
Palo Alto Networks Inc.	PANW:US	US\$ 49,170	US\$ 49,247	46.3x	38.1x	31.1x	25%	14%
Average				27.3x	20.8x	18.7x	34%	11%
Median				25.1x	15.3x	15.5x	25%	14%
SSC Security Services Corp.	SECU:TSX	CA\$ 53	CA\$ 11	8.5x	4.3x	1.6x	14%	76%

Figure 4: Peer Group Analysis

We are initiating coverage on SSC Security Services Corp. with a BUY rating and a \$4.50/share target price based on 7.0x 2023E EBITDA. We think a premium multiple to the group average is justified due to the various factors mentioned in our thesis including its strong balance sheet, M&A program, cross-selling opportunities, the dividend yield and share buyback program.

Target Price Calculation	
2023E EBITDA Multiple	7.0x
EV	47.7
Cash & Legacy Assets	42.6
Debt	0.3
Equity	90.0
Target Price (C\$)	C\$4.50
<i>Upside</i>	<i>68%</i>

Figure 5: Target Price Calculation

INDUSTRY OVERVIEW

The two main categories in the building security industry include Alarm Systems and Protection, which refers to businesses offering security systems such as surveillance equipment, alarms, and monitoring services, and Security and Concierge Services which refers to businesses that provide investigation, guard and patrol, and valuables transport services. The Canadian security systems and services market generated \$11.6B in revenue in 2021, representing an increase of 6.7% from \$10.8B in 2020 and a 4.4% CAGR between 2017 and 2021. Looking ahead, the industry is expected to continue to grow at a 1.8% CAGR from 2021 to 2026 (Figure 6). In Canada, the top three companies account for ~15% market share (Commissionaires, Gardaworld and Securitas), while the industry continues to be dominated by a growing number of "mom and pop" businesses; we are expecting consolidation to be a key trend in the space over the coming years. The key value drivers in the industry include effective cost controls, reputation, ability to provide competitive pricing and proximity to key geographical markets.

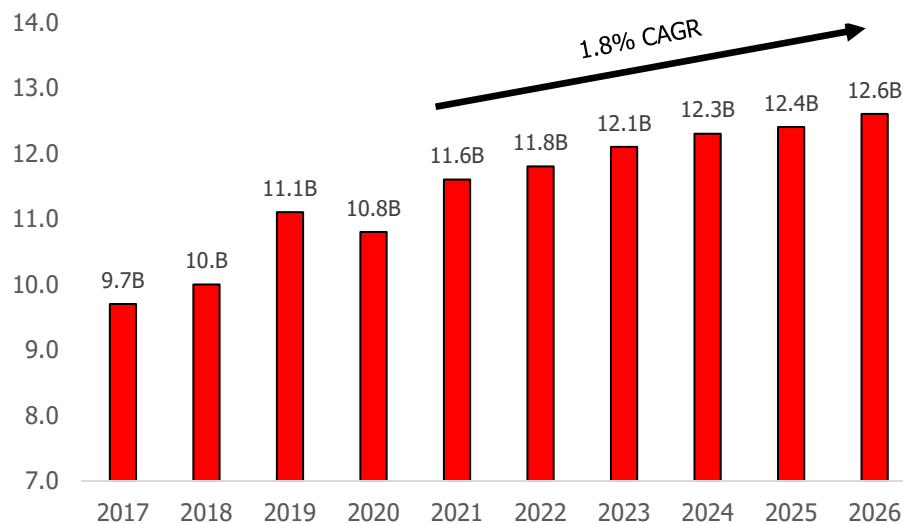


Figure 6: Industry Growth (Source: Deloitte)

CATALYSTS

- Partial contribution from Logixx in Q3 and full contribution in Q4
- Acquisitions
- New contract announcements

APPENDIX

Name	% Ownership (Basic)
Doug Emsley, CEO	23.1%
Brad Farquhar, CFO	6.0%
3 Private Investors (Nova Scotia)	5.9%
Winnipeg Airports Authority	4.5%
Family Office (Canada)	4.0%
Gord Nystuen, VP	3.3%
Family Office (Canada)	3.2%
Family Office (Canada)	2.2%
Family Office (Alberta)	1.7%
Private Investor (Netherlands)	1.4%
Blair Ross, COO	1.3%
Insurance Company (Saskatchewan)	0.8%
Private Investor (Saskatchewan)	0.8%
Private Investor (Alberta)	0.7%
David Laidley, Director	0.5%
Employees & Other Insiders	1.6%
Holdings of Top 15 Shareholders + Insiders	61.2%

Figure 7: Public Ownership (Source: Company Documents)

Disclosure Code: None

Disclosure

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Rating System	
Buy:	Price expected to rise
Speculative Buy:	Buy rating with increased risk
Hold:	Properly priced
Sell:	Price is inflated and expected to decrease
Under Review (U/R):	Under review
Not Rated (N/R):	Not currently rated

Summary of Recommendations	
Buy	17
Speculative Buy	1
Hold	0
Sell	0
U/R	1
Total	19