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IF YOU ARE SELLING ALARM ACCOUNTS, THE ACCOUNTS SPREADSHEET IS CRITICAL

Those of you who have sold alarm accounts know I am talking about the b Excel spreadsheet that contains all the details of the monitored accounts and other Recurring Monthly Revenue (RMR) being sold. Writing a whole article about a Spreadsheet may seem like overkill but it is a critical part of any deal involving the sale of alarm accounts for several reasons.

This article hopefully will explain why this spreadsheet is so important and list some of the details about data needed on it.

No deal for alarm accounts can be completed without this spreadsheet being done first. In most deals, filling in this spreadsheet with details of the accounts is by far the most time- consuming and frustrating part of the deal. I often think that buyers don't appreciate just how much work it involves. When doing a deal, I sent a blank template for this spreadsheet early on in the deal in hopes to get the dealer to start working on it early in the game.

Having clerical help who knows how to use Excel helps a lot. Often a seller can cut and paste from their billing systems to fill in the columns of the spreadsheet. However, having their own clerical staff doing this spreadsheet can present a problem if the owner is trying to keep the sale confidential. For what it is worth if the seller has all his data in a standard accounting software system like Quick books or Sedona, I have recently found a third-party computer guy who can do the spreadsheet for the Seller and remotely.

Given that most of the value contained in the sale of alarm companies is in the monitored accounts, it is not surprising that a spreadsheet with all the details on the accounts is as important as it. In fact, in almost all acquisition deals, a shortened version of the full spreadsheet is attached to the Purchase and Sale Agreement. In essence this is what the buyer is buying.

What most sellers I run into don't realize is that this same spreadsheet is used for 2 other important reasons:

- **Calculating the Final Purchase Price**- Alarm accounts deals are mostly always expressed as a multiple (# of Months) of RMR less the Deferred Revenue calculated as of the closing date. The spreadsheet lists all the RMR, the Billing Rotation (annually, quarterly or monthly PAP) and the Next Billing Date (after the closing date) all of which are used to calculate the deferred revenue. Any mistake of any of these variables will cause the Final Purchase Price to be wrong.
- **Giving the buyer the details of how to bill the accounts after** – The Buyer using this same spreadsheet to bill the accounts after**.** Nothing will increase the attrition on an

account base after selling more than incorrect billing of the accounts. If rate or where the bill is to be sent is wrong it will cause a problem with customers.

Most of the spreadsheets that I have seen have most of the same column headings and data required. Some other points to note about the data on a spreadsheet:

- All the RMR rates on the spreadsheet should be tax out.
- The spreadsheet RMR numbers all have to be expressed in terms of "monthly" rates.
- Only items that are truly Recurring Monthly Revenue can be put on the spreadsheet. For example, "pay as you use it" guard response is not RMR. Neither is time and materials service revenue. But managed access if it recurs month in month out can be included.
- Some buyers pay different multiples on the various types of RMR- for example lower multiples on guard and maintenance contracts. That is one reason they like the total RMR on an account broken down into its parts.

Here is a list of the most important columns headings:

- Existing monitoring station system number- Helps to identifies the account.
- Customer name & system address- This identifies the account and where the system is installed. Note that the system address can be different from billing address.
- All the details of the RMR- including monthly monitoring, maintenance RMR, cell or alarm.com RMR, guard RMR.
- Billing frequency- Billing rotation, next billing date, closing date
- Billing details- Invoice or PAP, credit card or bank, billing address
- Miscellaneous- Signed contract or not, commercial or residential, panel type, last signal date

Most excel spreadsheets are set up to automatically spit out the deferred revenue which is dependent on the billing rotation, the next billing date and the planned closing date of the transaction. I always suggest that a seller double check the deferred revenue calculation on several lines of the spreadsheet to make sure it makes sense. As we all know, the deferred revenue can add up to be a big deduction particularly if a dealer bills many of his accounts annually.

In terms of data collection, what often takes a lot of time with the spreadsheet is having to pull the file on each account to see whether there is a signed contract on the account and what the panel type is.

With all this detail to get right on each monitored account, you can understand that getting the spreadsheet right for an account base of 1,000-1500 accounts is a big job for anyone.

Usually, this spreadsheet is completed during the due diligence period after a Letter of Intent is signed and then turned over to the buyer to examine. If the closing date is still weeks away, some sellers will blank out the customer names when turning it over to buyer at least until they closer to the deal closing.

Finally, it is up to the seller to keep the spreadsheet up-to-date for any new accounts or cancellations between when it is first completed and the closing date. Having said this most spreadsheets can still get corrected between the 1st and 2nd payment on a deal which normally happens about 90 days after closing.

Getting this spreadsheet done early and correctly is a major boost to any alarm account sale.

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