

M&A market report 2H2020

Cybersecurity





Covid heightens need for cybersecurity in digital world

This year, enterprises have been forced to rapidly digitise their products, processes and services. Lockdown measures around the world have accelerated the move to digital. Working from home has required better IT capabilities, whether in-house or outsourced. In some cases, IT departments have had to move entire companies off-site. To enable this, IT services firms and departments are working with virtualisation tools and integration with other systems, software and platforms. They are also working with the cloud for efficiency in remote working and corporate agility.

This has generated a need for reinforced cybersecurity. While the world is focused on the health and economic threats posed by Covid, cyber criminals are undoubtedly capitalising on this crisis. In March, a report by Deloitte pointed to a spike in phishing attacks, Malspams and ransomware attacks as attackers used Covid as bait to impersonate brands and mislead employees and customers. Thus, although the first half of 2020 saw less M&A activity across all tech sectors, in 2H2020 and beyond M&A activity will reflect a heightened attention to cybersecurity in the corporate world.

Covid effects on enterprise cybersecurity

With many employees working from home and students learning virtually, enterprise virtual private network (VPN) servers have now become a lifeline to companies/schools, and their security and availability will be a major focus going forward. In a bid to achieve this, there is a possibility that an organisation's unpreparedness will lead to security misconfiguration in VPNs thereby exposing sensitive information on the internet and exposing the devices to Denial of Service (DoS) attacks. In addition to this, some users may utilise personal computers to perform official duties which could also pose a great amount of risk to organisations.

Moreover, the functioning of many security teams is likely to be impaired due to the Covid pandemic thereby making detection of malicious activities difficult and responding to these activities even more complicated. Updating patches on systems may also be a challenge if security teams are not operational.

Source: Deloitte





M&A Summary

Valuations retain momentum

Deal flow in the cybersecurity space has been consistent since 2015. Despite a dip in transaction volume after the record levels observed in 2019, projected volume for 2H2020 suggests that the coronavirus pandemic has not drastically affected deal activity. In fact, projected volume for 2H2020 is roughly identical to volumes seen in 1H2018, for instance.

Valuations in the sector have stayed strong. EV/S multiples have consistently traded around 5x – significantly above valuations of around 3x seen in the wider enterprise software M&A market – and have trended upwards since early 2017. Meanwhile, EV/EBITDA multiples have seen better days, dipping to 12.4x after reaching much higher levels between 2015 and 2019.

Total number of Cybersecurity M&A transactions and valuation multiples by half-year, 2015-2020



Our Cybersecurity report covers the 12-month period between October 2019 and September 2020. All totals and median values refer to the entire period unless otherwise stated. Median multiples plotted in the graphs refer to the 30-month period prior to and including the half-year or period.



NUMBER OF ACQUISITIONS IN THE PAST 30 MONTHS



NUMBER OF ACQUIRERS WHO MADE >1 ACQUISITION IN THE PAST 30 MONTHS



Private Equity In Cybersecurity

Private equity continues to play large role

PE firms have funnelled significant investment into cybersecurity – including via their portfolio companies – with a focus on larger, more established targets. The share of financial buyers came in at approximately 36 per cent so far this year – much higher than previous shares which oscillated between 3 per cent and 26 per cent since 2010 (Graph 1). This is likely to continue as Covid has forced some strategic buyers to stall their M&A activity, while financial buyers are

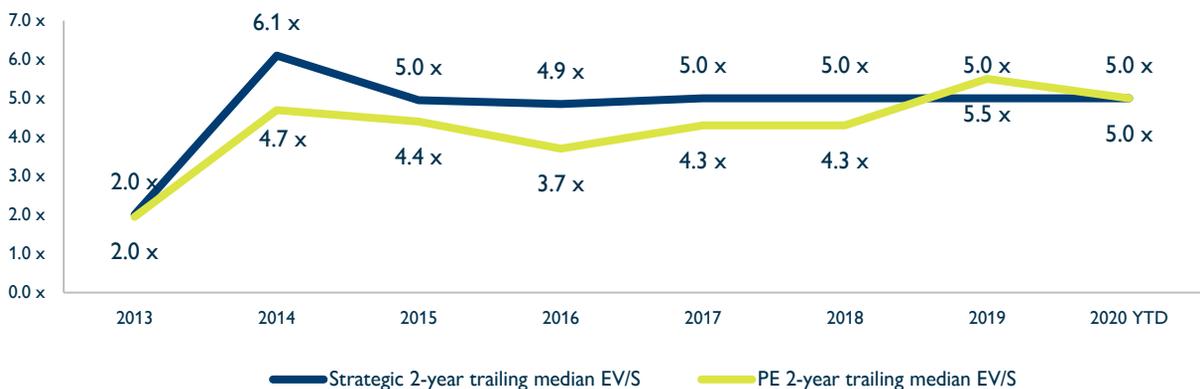
sitting on large amounts of dry powder and will continue to have access to cheap debt in the near future.

Historically, we have seen a spread between valuations paid by strategic and financial buyers respectively, but the gap between the trailing two-year median EV/S multiples of these two groups of acquirers closed for the first time this year (Graph 2).

1. Strategic vs. PE cybersecurity acquisitions



2. Spread between Strategic vs. PE Cybersecurity 2-year trailing median EV/Sales, 2013-present





Top Acquirers – PAST 30 MONTHS

This year, Australian PE firm BGH Capital acquired 12 niche cybersecurity players under the aegis of one large company: CyberCX. The company will provide a full range of cyber security services from consulting and advisory, risk and compliance, security assurance, integration and software engineering, incident response and digital forensics, training and education and managed security services.

Meanwhile, Accenture continued its acquisition spree

in the space, acquiring Revolutionary Security, an American provider of security integration and consulting services. Accenture will thus triple the size of its critical infrastructure and operational technology (OT) security business over a three-year period. Beyond Revolutionary Security, Accenture has made several acquisitions focused on cybersecurity including Context, Symantec, Déjà vu Security, iDefense, Maglan, Redcore, Arismore and FusionX.

Acquirers	Acquisitions in 30 months	Three most recent acquisitions
	12	<p>Sense of Security Pty Ltd managed cybersecurity services</p> <p>Alcorn Group managed cybersecurity services</p> <p>Gen2 Consulting Limited managed cybersecurity services</p>
	8	<p>The Crypsis Group cybersecurity advisory services</p> <p>Aporetic Inc. cloud workload security & micro-segmentation SaaS</p> <p>Twist lock Ltd. Cloud security management PaaS</p>
	7	<p>Exostar LLC collaboration identity & access management SaaS</p> <p>Sophos Plc UK security SaaS</p> <p>ConnectWise LLC business process automation SaaS</p>
	7	<p>Cerberus Technologies Pty Ltd security systems integration services</p> <p>Security Solutions & Management LLC security systems integration</p> <p>MTS Ireland-based physical security systems & integration</p>
	6	<p>Last line Inc. AI anti-malware software & SaaS</p> <p>Ocarina Inc. Kubernetes application security SaaS</p> <p>Intrinsic [fka GitStar] cloud-based application security SaaS</p>
	6	<p>Analytics8 LP data analytics consulting services</p> <p>Parker Fitzgerald IT outsourced & consulting services</p> <p>Fairway Technologies IT services provider</p>
	5	<p>Odo Security Ltd. (technology assets) network access management SaaS</p> <p>Protego Labs serverless application security SaaS</p> <p>Acumyn quality assurance SaaS</p>
	5	<p>GlobalSCAPE Inc. secure managed file transfer software</p> <p>Titus Inc. [The Blackstone Group] data classification security SaaS</p> <p>Boldon James [QinetiQ Group Plc] data classification & messaging software</p>



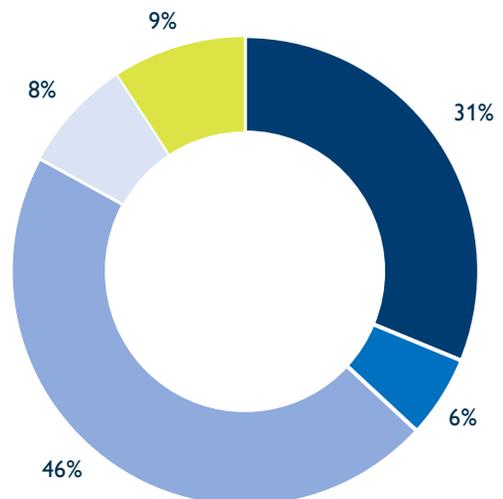
Trends, largest deals & subsector breakdown

- Regional deal-making sees European targets acquired by more **local acquirers**
- First signs of deals influenced by Covid-19, e.g. videoconferencing software dealing with a widening userbase and having to improve **cybersecurity to deal with data breaches**
- **Private equity** and **financial buyers** continue to invest and acquire, accounting for more than a third of all transactions in the sector so far in 2020.
- **IT Services firms** invest in IoT security as these devices are becoming more widespread and bring with them more cyber risk
- **IT Security Services** segment gets largest share of transactions in the past 30 months, as firms continue to outsource much of their IT and cybersecurity needs

LARGEST DISCLOSED DEALS OF THE PAST 12 MONTHS

\$3.8 billion 14 Oct 2019	Thoma Bravo LLC acquires Sophos at 5.5x EV/S and 48.1x EV/EBITDA
\$2.1 billion 18 Feb 2020	Symphony Technology Group/Ontario Teachers/AlpInvest Partners acquires RSA Security Inc. [Dell Technologies] [NYSE:DELL] at 2.6x EV/S and 11.5x EV/EBITDA
\$1.7 billion 06 Feb 2020	Advent International/Crosspoint Capital Partners acquires ForeScout Technologies Inc. at 4.8x EV/S
\$1.1 billion 06 Jan 2020	Insight Venture Management LLC [dba Insight Partners] acquires Armis Inc at 18.3x EV/S
\$930 million 28 Sep	Ivanti [Clearlake Capital/TA Associates] acquires MobileIron Inc. at 3.9x EV/S
\$800 million 19 Aug	KBR acquires Centauri LLC from Arlington Capital
\$775 million 27 Aug	Fastly Inc. acquires Signal Sciences at 31x EV/S

- **Identity & Access Management**
Encryption, authentication, network access, directories, digital rights management (DRM).
- **Network & Endpoint Security**
Database security, firewalls, intrusion prevention & detection, endpoint security.
- **IT Security Services**
Hosted security services, internet content security, IT outsourcing, ICT security services.
- **Anti-Malware Software**
Anti-bots, anti-malware, anti-virus, anti-spyware, etc.
- **Other**
VPNs, log management, transaction security, other.
NB: these deals are not explored in depth here, as the deal pool is too varied to offer any accurate conclusions.

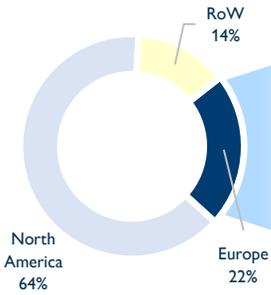




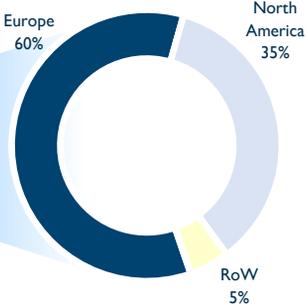
Geographical breakdown

LAST 30 MONTHS

HEADQUARTERS OF CYBERSECURITY TARGETS



HEADQUARTERS OF ACQUIRERS OF EUROPEAN TARGETS

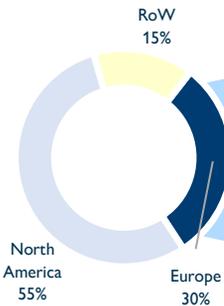


Over the past 30 months, **60 per cent** of European targets were bought by acquirers that were also European. In Q1 2020, before the coronavirus outbreak, this figure reached 44 per cent.

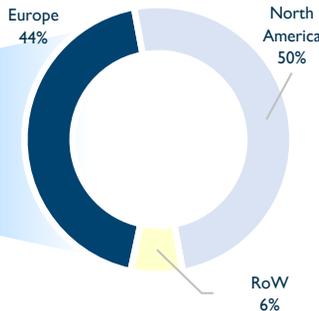
However, this number has jumped to **73 per cent** if we only consider deals closed **since the beginning of the Covid outbreak**, pointing to **more regional deal-making** for 2020. This is likely to be due to travel restrictions and local lockdown measures strongly impacting intercontinental M&A.

Q1 2020

HEADQUARTERS OF CYBERSECURITY TARGETS

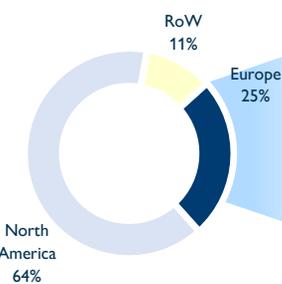


HEADQUARTERS OF ACQUIRERS OF EUROPEAN TARGETS

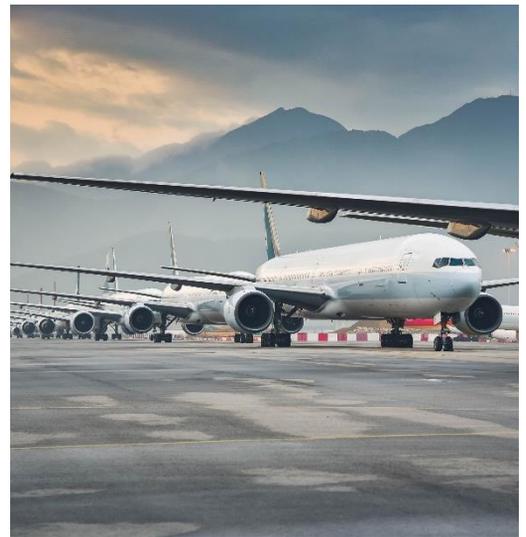
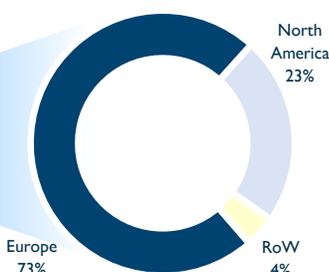


Apr 2020 – present

HEADQUARTERS OF CYBERSECURITY TARGETS



HEADQUARTERS OF ACQUIRERS OF EUROPEAN TARGETS



Meanwhile, across global M&A activity, **North American targets** have maintained their majority share of deals, accounting for **55 per cent of all deals** in Q1 2020 and **64 per cent since then**.





IT Security Services

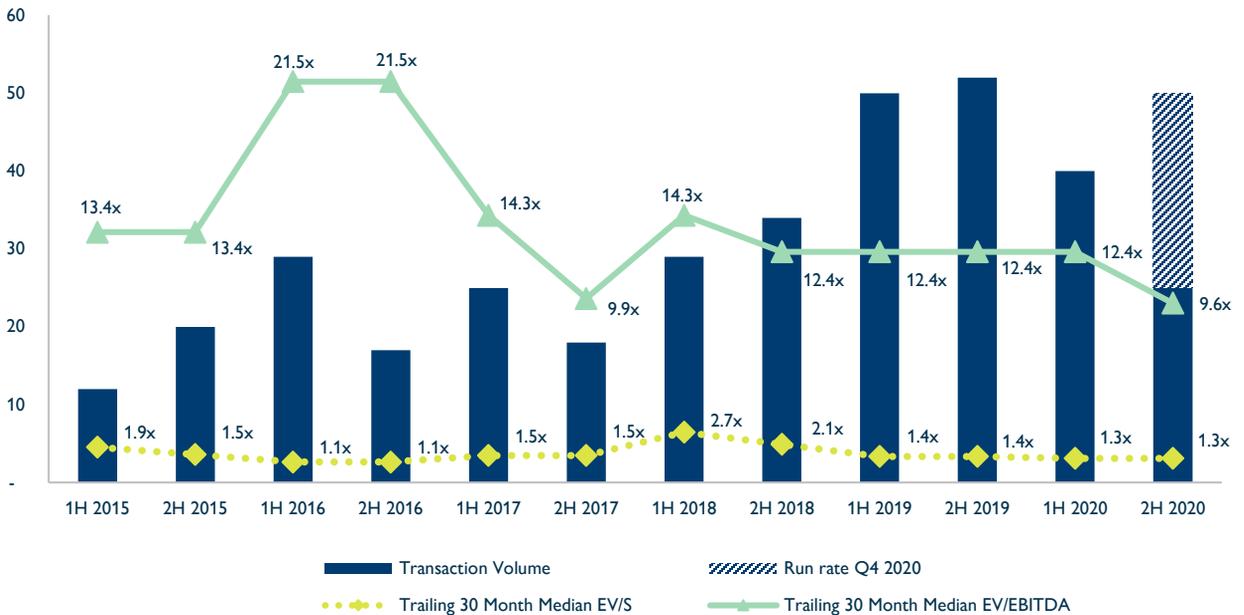
Sub-sector overview

The largest subsector within the cybersecurity space, IT Security Services saw reduced deal volume in 1H2020. However, this figure seems on track for recovery, with a total 50 deals to close by the end of 2H2020. This is more in line with the half-yearly deal volumes seen in 2019, for example.

On the valuation side, the trailing 30-month EV/S multiple has dipped slightly, reaching 1.3x. EBITDA

multiples are lower now than in 2019 and in the first half of 2020, reaching 9.6x in Q3 2020.

It is also worth noting that, while previous EBITDA multiples on the below graph were very high, they included a deal which closed at 32.9x EV/EBITDA. Thus, it is safe to say that more recent medians are more representative of valuation trends in the segment.



HelpSystems invests in secure file transfer

In July 2020, TA Associates portfolio company HelpSystems took private GlobalSCAPE in a deal worth \$178 million. Founded in 1996, GlobalSCAPE is a leader in the secure managed file transfer software industry and provides cloud-based and on-premise solutions. The company helps organisations secure the movement, automation and integration of data both in and out of the cloud. It also offers automated data exchange, team collaboration, data backup and recovery capabilities.

The merger is set to augment HelpSystems' data security business, which includes data loss prevention and data classification software. The combined company will focus on providing the most comprehensive collection of trusted security and automation solutions to customers worldwide.





IT Security Services

Allied Universal makes multiple acquisitions

Security integration firm Allied Universal made two acquisitions in the past 12 months. In November 2019, it acquired Advent Systems for an undisclosed amount. Founded in 1994, Advent is a low-voltage integrator of IP video, access control, structured cabling and audio-visual systems based in Illinois.

With revenues exceeding \$42 million and 125 employees, Advent will help Allied Universal's Technology Services grow strategically and geographically, especially within the Midwest region.

A few months later, in July 2020, Allied acquired Phoenix Systems & Service (PSSI), another Midwestern company providing security systems integration to businesses in Illinois. PSSI has revenues exceeding \$16 million and 35 employees, and is known as one of the premiere integrators for access control, digital video, optical turnstiles and intercom systems in the nation.

The company provides a complete turnkey installation including systems design, project management, conduit, wiring, training, IT support and system service and maintenance. In addition, PSSI's diversified customer base includes several global entities and Fortune 500 companies. The company has a long history of excellent labour relations including unionised field installers, which presents a competitive advantage in the marketplace.

04 Nov
ACQUISITION
Not disclosed

Advent
SYSTEMS, INC.

20 Jul
ACQUISITION
Not disclosed

PHOENIX
Systems & Service, Inc.
Security Solutions Since 1991



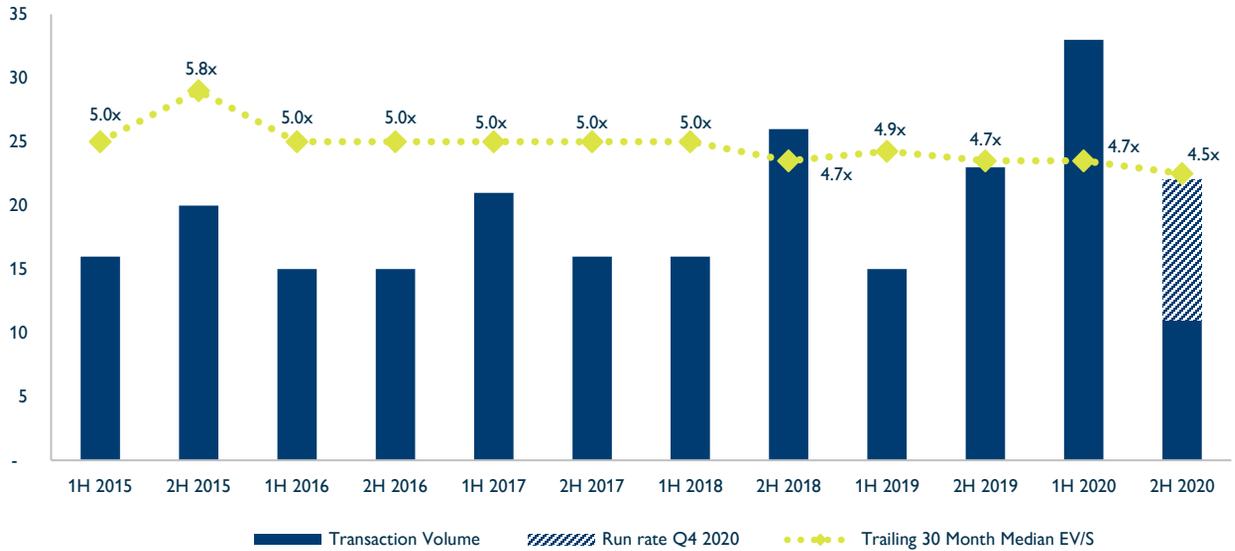


Identity & Access Management

Sub-sector overview

After a very strong first half of 2020, transaction volume in this segment has declined very slightly, with 11 deals closed so far in Q3 2020. However, the trailing 30-month revenue multiple remained

stable at 4.5x. There were not enough disclosed EBITDA multiples to warrant a reliable trailing 30-month median EBITDA multiple.



TA-backed HelpSystems makes further strides

HelpSystems also acquired two further cybersecurity companies in June 2020. In the first, it acquired Boldon James for \$37 million. Founded in 1985 and formerly owned by QinetiQ Group, Boldon James is a UK-based provider of data classification and secure messaging software for the public and private sectors.

In the second, HelpSystems acquired Titus from The Blackstone Group. Titus provides data classification security SaaS which enables organisations to classify, share and secure unstructured data while meeting regulatory compliance requirements. Titus has millions of users in over 120 countries. Customers include some of the largest financial institutions and manufacturing companies in the world, government and military organisations.



These acquisitions will help HelpSystems' customers improve their security posture and meet regulatory requirements, by mitigating data leakage and regaining control of sensitive data in their organisations. The solutions offered by Titus and Boldon James will work in lockstep with HelpSystems' GoAnywhere Managed File Transfer and Clearswift email and web security solutions.

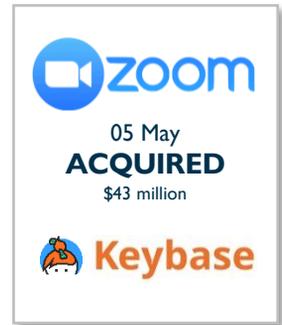


Identity & Access Management

Zoom guards against further security breaches

Zoom has had an unmatched rise in popularity ever since the global outbreak of Covid forced people around the world to work from home. However, the platform was seemingly unprepared for this boost in userbase because the sudden rise in popularity also disclosed various security concerns regarding the app. Besides these, Zoom was also found to be infected with some other vulnerabilities that was leaking data of its users. For instance, in April, a report by Bleeping Computer claimed that half a million Zoom accounts had been hacked and the data from these accounts sold on the dark web. The cybersecurity firm also revealed that most of the hacked accounts belonged to well-known companies such as Chase, Citibank, educational institutions, and others.

Unsurprisingly, Zoom has since invested in cybersecurity solutions. In May, it bought Keybase for \$43 million. Founded in 2014, the company provides open-source messaging and file-sharing. Its software utilises public key cryptography to enable end-to-end encryption, and can be installed on iOS, Android, Windows and Linux.





Network & Endpoint Security

Sub-sector overview

Transaction volume in this subsector has been extremely volatile. So far in 2020, we've seen only a few deals, while 2019 saw the highest volume on record. EV/S multiples have seen some volatility over the years but remain resilient overall, as the trailing 30-month median remains at an extremely high 7.6x. However, it is useful to bear in mind that some of the deals included did not have disclosed value or multiple.

As the number of connected devices grows and enterprise IoT networks expand, the number of potential entry points for cyber-attackers is increasing exponentially. Traditionally used by retailers and e-commerce companies to analyse consumer behaviour, behavioural analytics (BA) algorithms are proving instrumental in securing IoT endpoints, and buyers have shown considerable willingness to pay for assets that employ BA to that end.



Atos invests in IoT security

Most recently, Atos acquired digital.security, a French firm founded in 2015 and subsidiary of Econom group. The company provides cybersecurity and network security services for IoT devices to business in France, Belgium and Luxembourg. Its services include penetration testing, architecture and compliance audits, code and configuration audits, security consulting, reverse engineering, risk assessment, and threat monitoring.

By integrating digital.security's expertise, with around 250 highly skilled consulting professionals and experts, and combining it with Atos' operational implementation and technology capabilities, the acquirer will reinforce its end-to-end approach for

clients. Atos will also benefit from a key asset in the fight against IoT threats and vulnerabilities thanks to CERT-DS, the first European CERT™ (Computer Emergency Response Team) developed by digital.security with a dedicated lab to test the security of IoT devices, with hardware to software reverse engineering, de-assembling and radiofrequency signal decoding.





Anti-Malware Software

Sub-sector overview

In 1H2020, transaction volume in this segment has returned to healthier levels. Multiples have also remained stable, as the trailing median 30-month EV/S

multiple came in at 3.8x – lower than 2017 or 2018 but higher than the multiples seen five years ago.



VMWare adds to anti-malware strategy

In June, VMWare acquired Last line, an American AI anti-malware software and SaaS, for \$160 million at 6.4x revenue. Last line's software detects and prevents advanced persistent threats, and also protects against zero-day attacks and phishing.

In recent years, Last line has enjoyed tremendous growth, acclaim for its AI-based threat detection capabilities, and most recently, recognition for pioneering successes with its Network Detection and Response (NDR) and Public Cloud security solutions. Meanwhile, VMware's strategy combines visibility into apps, workloads, networks, users and endpoint

devices with advanced threat detection and response to deliver an intrinsic security approach. As one combined company, VMware and Last line aim to offer a broader array of integrated security solutions for both networking and security, and complement many of VMware's established solutions for cloud, data center, end user, and workload protection.





Conclusion & Contacts



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Cyberattacks continue to be one of the most dangerous threats across all industries. Attacks are growing in number and complexity, and cybersecurity vendors are moving quickly to safeguard against them and keep up the pace.

Avoiding reputational damage caused by data breaches and cyber attacks is already an important incentive for businesses to spend on cybersecurity. But this year, the Covid shift to digital in all areas of life – including students learning virtually and employees working from home – has forced companies digitising their processes to double down on IT and cybersecurity improvements.

As a result, the IT Security Services segment has seen a rise in M&A activity, as firms continue to outsource their IT and cybersecurity needs. We expect this trend to continue as digitisation continues across the board as businesses narrow in on some of their IT vulnerabilities in ways they may not have needed to until now.



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