

## Cybersecurity Industry Insight

August 2020

Toronto | Los Angeles | New Delhi

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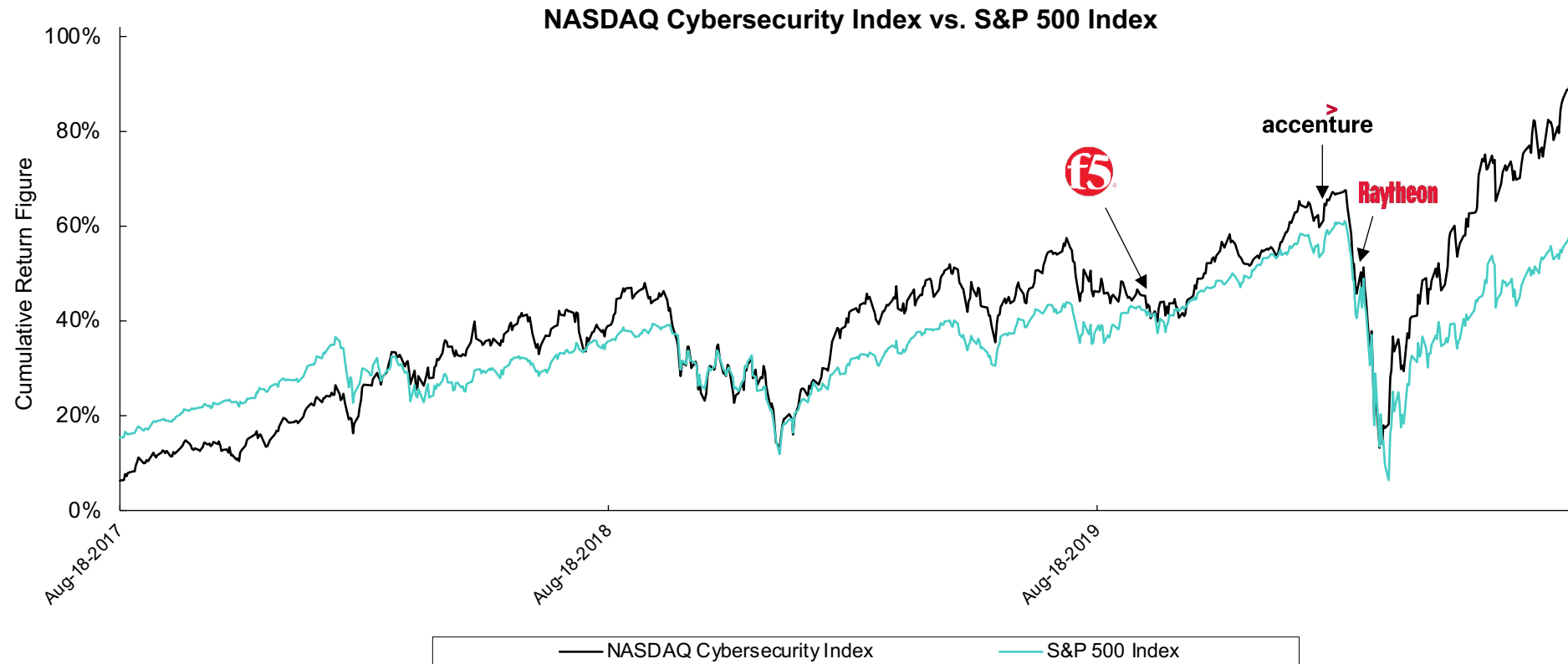
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# Industry Highlights

## Cybersecurity gaining attention leading to strong performance

- Cybersecurity market has performed well relative to the S&P 500 coming out of the COVID-19 selloff
- Five significant cybersecurity deals YTD (2020) with Enterprise Values of \$1 billion+
- Six sizeable financial sponsor led deals YTD (2020); Three leading cybersecurity (Accenture, F5 Networks, Raytheon) firms engaging in strategic M&A

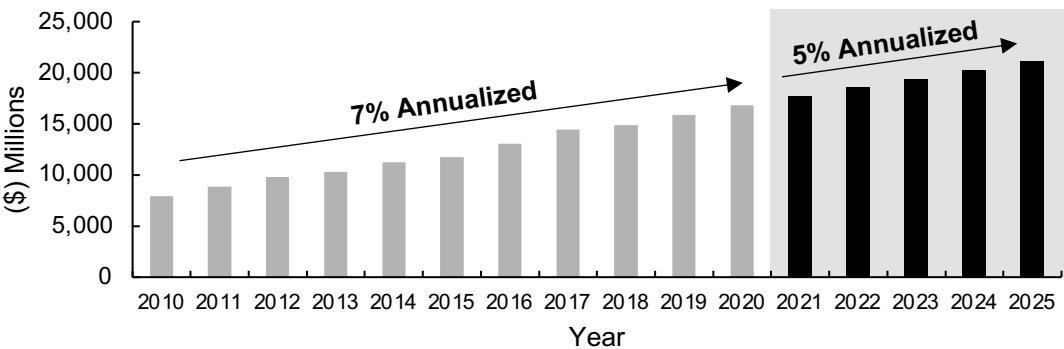


# Industry Overview

Stable growth with increased favourable long-term prospects

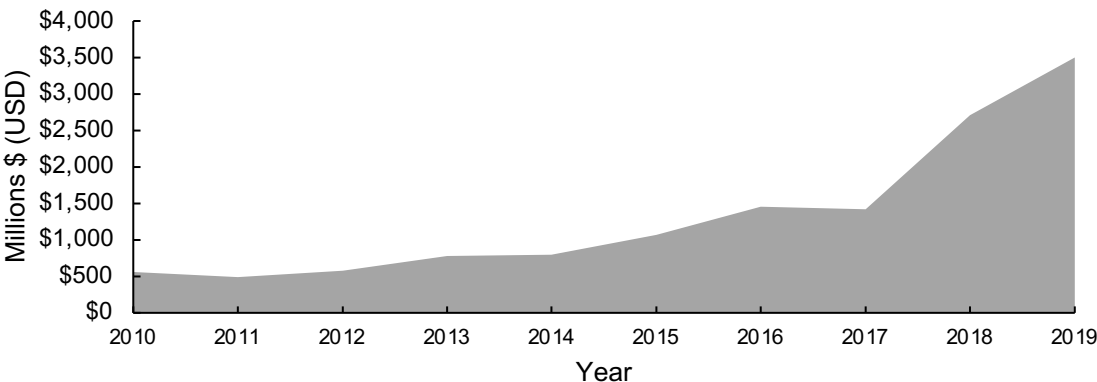
- **Stable Growth:** 5-year annualized growth forecasted at 5% (2021-2025)
- **Private Sector Investment:** Computer and software investment increased by 8% annually between 2014-2019

Revenue Trend



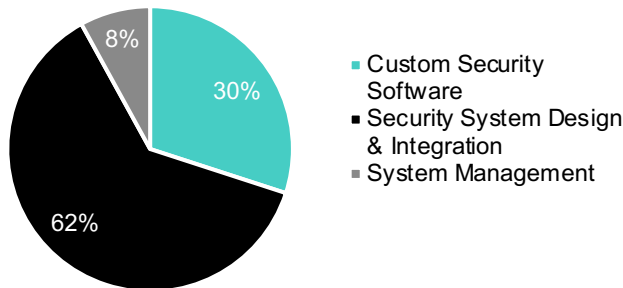
- **Exponential Growth:** Cyber crimes are unpredictable and costly to firms beyond financial considerations
- **Cost:** The total damage of reported cyber crime increased by 30% from 2018 to 2019

Monetary Damage from Cyber Crime (US)

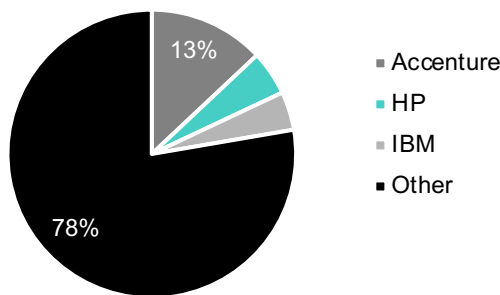


- **Services:** Largest segment includes **security threat prevention** including cyberterrorism
- **Market:** Highly fragmented industry with low concentration among large market participants

Products & Services Segmentation

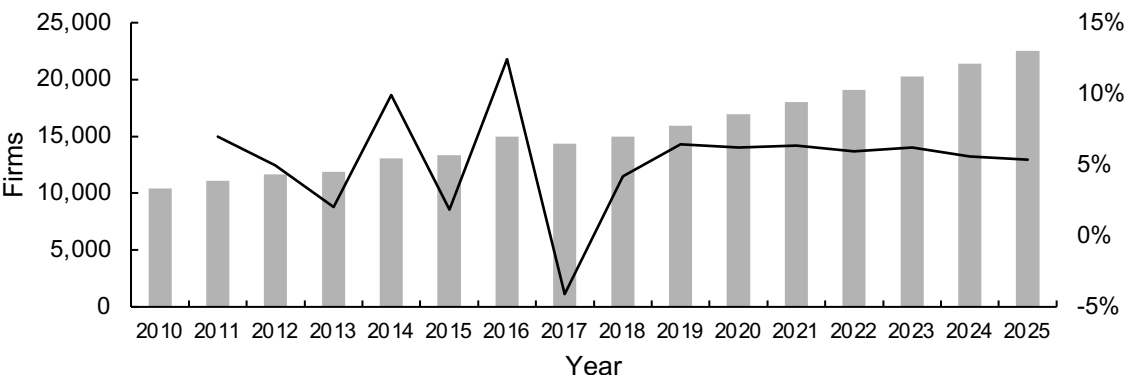


Market Share



- **Fragmented Market:** As the industry size continues to grow, more firms enter the market to service local and niche customer needs
- **Consolidation:** As market reaches maturity (2025) consolidation will drive profits

Market Participants



# Industry Trends

*Consolidation and specialization leading the way for improved profits*

## Cloud Computing

- **Organizational Design Changes:** Large technology investment shifted firms to agile with more application web-based / cloud systems held by third-party providers which require security support.
  - > COVID-19 impacts have increased demand and brought investment time horizons forward for firms of all sizes
  - > Online cloud services expected to grow at 10% annualized over the next 5 years; for both public and private enterprise
  - > Industry growth will directly increase the demand for internal / external security spending

### Types of Cloud Computing

35% Private	21% Community
33% Hybrid	11% Public



## Service-Based Commerce / Networks

- **Online Consumer Demand:** 10% of the service market is conducted online and retail commerce is aggressively transitioning to ecommerce.
  - > \$164 billion industry (US) projected to grow at 3% over the next 5 years
  - > Smaller firms are driving demand due to limited budgets for IT and larger firms are facing demand for data management
  - > Cybersecurity is offered through online based services which will benefit from both trends in the shift online and increased need for data protection

“Almost three in ten people are shopping for things online that they normally would have bought in-store, according to a survey of more than 30,000 Canadians by Chicago-based market research firm Numerator.”

*Financial Post, April 10, 2020*

## Data Breach Prevention / Maintenance

- **Data protection is valuable and irreplaceable:** High risk firms are willing to make investments in prevention and maintenance to avoid both financial and reputational loss for attacks or breaches.
- **Major markets include:**
  - > Government (47.3%), Healthcare (29.6%), Education (11.8%), Financial services (9.8%), IT Services (1.5%)
  - > Rapidly changing technology increases the competitiveness of the market
  - > Major breaches bring attention to the need for corporate protection



# Deal Highlights - 1

COLUMBIA PACIFIC CAPITAL PARTNERS

*Strong competition resulting in active M&A market*











Date	Acquirer	Target	Deal Size (\$m)	EV/Rev	Target Description
24-Jan			\$1,028	NA	Commercial and enterprise cyber security and fraud prevention software
13-Feb			\$700	NA	Provides risk intelligence screening and anti-money laundering services
19-Mar			\$480	0.9x	Provides fraud prevention and identity verification software
02-Jun			\$165	4.9x	Industrial Cybersecurity designed for IoT and ICS risk
01-Jan			\$39	NA	Provide browser isolation technology to improve web experience



# Deal Highlights - 2

COLUMBIA PACIFIC CAPITAL PARTNERS











*Strong competition resulting in active M&A market*

Date	Acquirer	Target	Deal Size (\$m)	EV/Rev	Target Description
01-Mar	 THOMABRAVO		\$3,612	4.9x	Thoma Bravo acquired Sophos, a global cybersecurity and encryption company Thoma Bravo specializes on software and tech-enabled companies
18-Feb			\$2,075	NA	Group of Investors acquired RSA Security from Dell Technologies RSA Security is a networks security and digital risk assessment company
01-Jun			\$2,000	NA	BMC Software, a KKR portfolio company, acquired Compuware from PE firm Thoma Bravo. Compuware provides mainframe solutions to DevOps and IT departments
15-Jul			\$1,600	4.47x	Advent International acquired Forescout (NASDAQ: FSCT) for a share price of \$29. Forescout provides agentless mobile, network and cloud security.
11-Feb			\$1,100	NA	Insight Partners a growth stage tech and SaaS investment firm acquired Armis. Armis develops agentless IoT security for enterprises and consumers.

# Deal Highlights - 3

Venture capital funding

COLUMBIA PACIFIC CAPITAL PARTNERS

Date	Acquirer	Target	Deal Size (\$m)	Post Money Valuation (\$m)	Target Description
27-Feb			\$340	\$2,800	Netskope provides cloud security solutions that protect enterprises from cyber threats and fraud.
17-Mar			\$216	NA	StackPath is a platform of security services that allows developers to protect, accelerate, and innovate cloud applications ranging from websites to media delivery and IoT services.
19-Feb			\$300	\$1,100	SentinelOne provides autonomous security for endpoint, data centers and cloud platforms to protect against malware and other cyber threats.
21-Jan			\$150	\$1,050	Snyk is a developer of security tools designed to identify and attack open-source vulnerabilities for enterprises.
18-May			\$145	NA	BioCatch Designs biometric technology to recognize human and non-human cyber threats.



## Significant transaction - Thoma Bravo acquires Sophos



**Acquired**

**\$3.9 Billion**  
**4.9x EV/Revenue**

**SOPHOS**

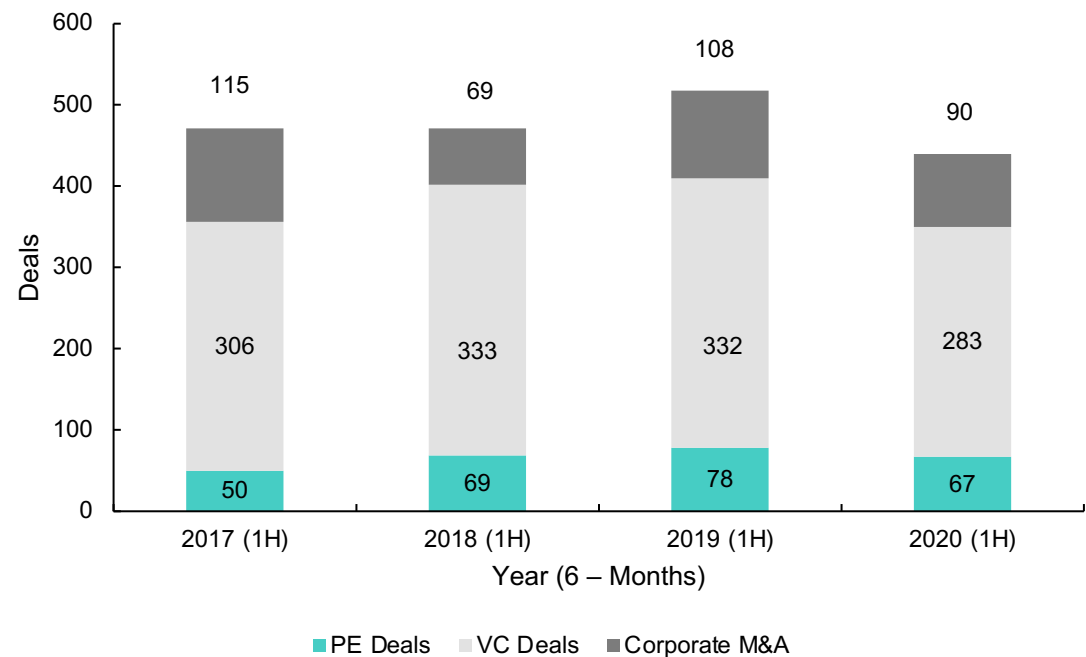
- Private equity investments in cybersecurity surpassed \$9 billion in the first half of 2020, which demonstrates the demand for financial sponsors in these high-growth technology-enabled industries
- Thoma Bravo, completed their acquisition of Sophos for approximately \$3.9 billion in March of 2020
- Sophos, a leader in cybersecurity and threat detection software, the Company was taken private by Thoma Bravo for \$7.04 dollar per share
- This was one of the largest acquisitions for Thoma Bravo who hope to continue their track record success in investing in technology-enabled and software companies
- With their new partner support, Sophos is focused on growing their 'next-generation' cybersecurity technology, including automation, machine learning and cloud solutions for enterprises

# Deal Activity

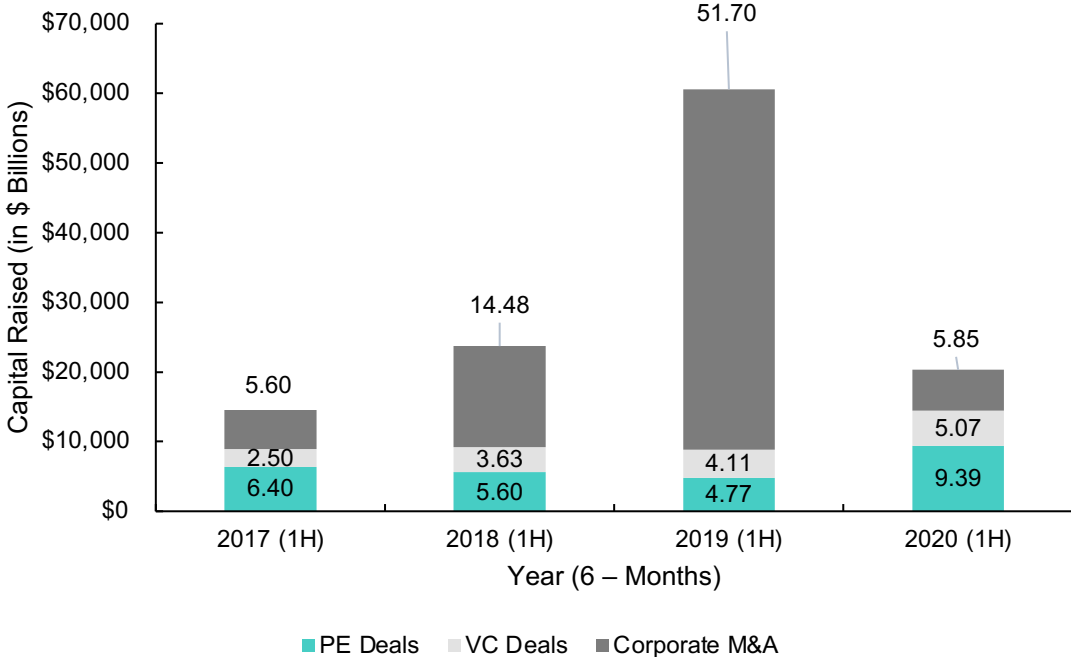
## Strong competition resulting in active M&A market

- Total deal volume is 440 for the first 6-months of 2020; down by 15% YoY
- Private equity deals account for 15% of deal volume in the first 6-months of 2020
- Historical market activity has continued to remain stable over the past 3-years and is projected to increase over the next 5-years
- Early stage VC will be looking at exit opportunities from their initial investments over the next five years either through private sale or IPO
- Total deal value for the first 6-months of 2020 was \$20.31 billion (USD)
- Pipeline for opportunities remains strong as changes in technology are rapid and new firms are entering the market
- COVID-19 presents optimistic buying opportunities both for value in the current market and increased focus on web-based applications
- Private equity continues to increase presence in the cybersecurity space with several high-profile deals in 2020

Deals by Acquirer Type



Total Deal Value by Acquirer Type

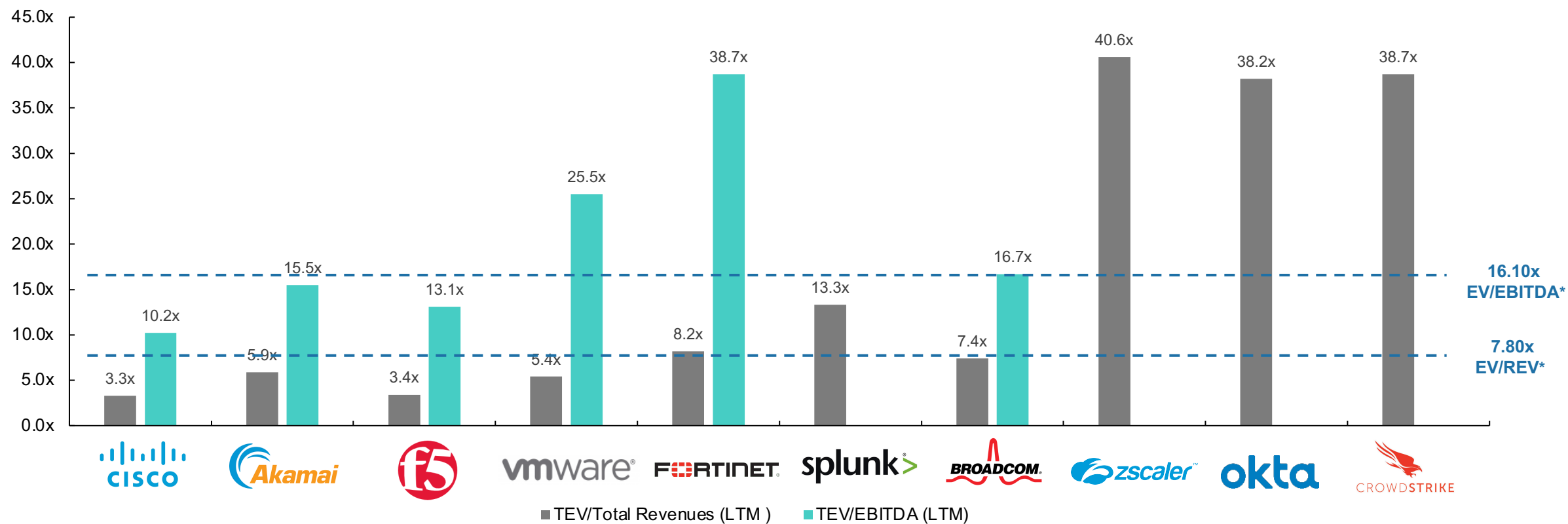


# Public Company Comparables

Industry leaders continue to indicate strength in valuation

- Top 10 Cybersecurity firms from NASDAQ Index median EV/EBITDA multiple of 16.10x and EV/REV of 7.80x; growth valuations demonstrates long-term value prospects
- Top 10 firms have been active in the M&A market focusing on growing their cybersecurity portfolio; acquiring firms in a high growth industry will contribute to keeping multiples high
- Half the listed firms have yet to generate EBITDA, the market is still transitioning to profitability which indicates a unique opportunity in the Cybersecurity market

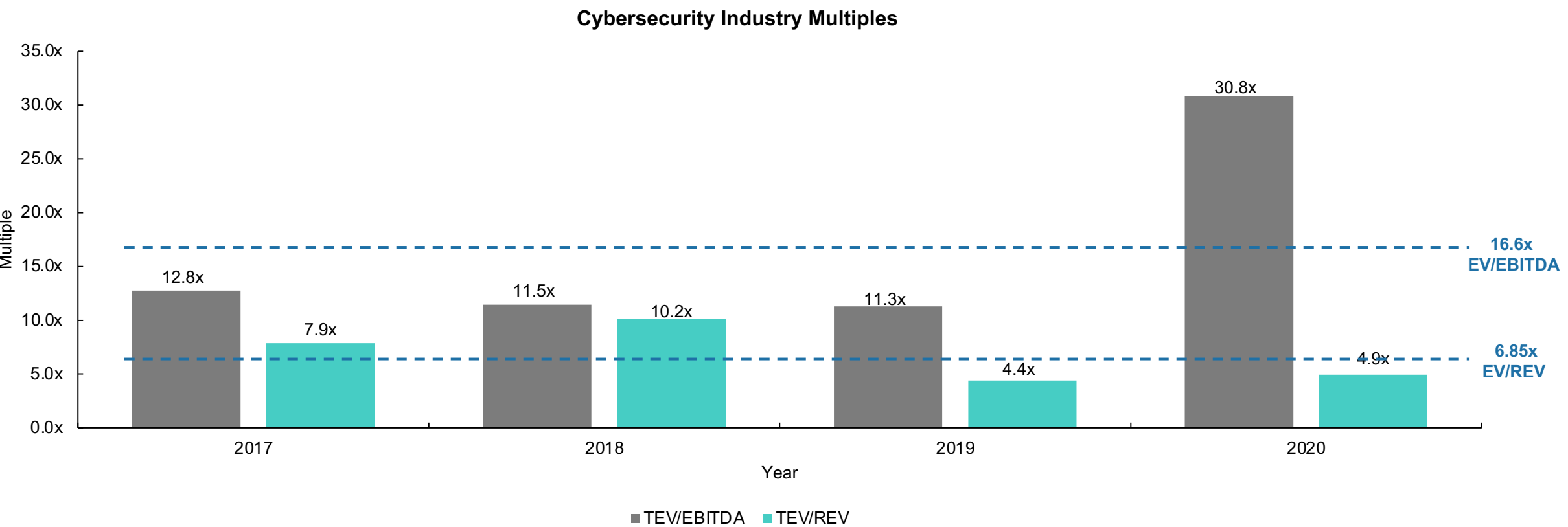
Public Comparables - Cybersecurity



# Market Valuations

## Industry multiples reflect growth prospects

- 4-year historical EV/EBITDA multiple of 16.6x and EV/REV of 6.85x; both multiples appear to be stabilizing as the industry matures
- Data is likely skewed for the revenue multiple given early-stage firms are not generating positive cash flow and therefore are being excluded in the EV/EBITDA multiple
- Cybersecurity shows signs of resilience in the current market environment given revenue models, insulation from the business cycle and increasing risk of threats to organizations
- Multiples indicate growth industry with long runways for revenue and efficiency gains



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LTM = Last Twelve Months

EV = Enterprise Value

TEV = Total Enterprise Value

REV = Revenue

EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization

NA: Not Applicable

NM: Not Meaningful



# COLUMBIA PACIFIC CAPITAL PARTNERS

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We invest in companies that we believe have leading competitive positions in defensible markets where we can add value via our operating skills and relationships. We seek to distinguish ourselves by demonstrating our ability to source and acquire scalable businesses through partnerships with founder-owners, management teams and sponsors.

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CPCP's Mergers and Acquisitions (M&A) arm offers innovative, customized solutions to our clients' most significant issues. The M&A team excels in domestic and international transactions including acquisitions, divestitures, mergers, joint ventures, recapitalizations, spin-offs, exchange offers, and leveraged buyouts.

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We strive to bridge the gap between North America and Southeast Asia including India through our world class, cross-border services by providing our clients with valuable investment planning strategies to help Southeast Asian businesses raise capital and providing international channels for investment diversification in the emerging countries such as India.

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