

Cybersecurity Report

Q2 2024

INSIDE THIS ISSUE

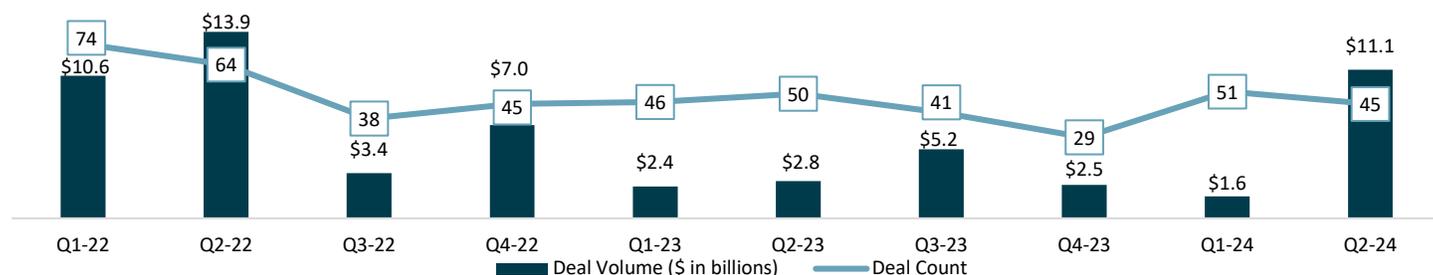
- Beset by escalating geopolitical tensions and high interest rates, 2023 saw significant declines in cybersecurity sector deal volume. However, the first half of 2024 has shown a significant turnaround, with cybersecurity deal activity heating up considerably – Q2 2024 deal volume reached \$11.1 billion, marking the highest quarterly deal volume since Q2 2022
- Q2 was headlined by several \$1 billion+ transactions, including Thoma Bravo’s take-private of Darktrace (\$5.3 billion) and CyberArk’s acquisition of Venafi (\$1.5 billion), which drove a sharp increase in quarterly M&A volume, signaling renewed investor confidence in the M&A market
- Despite lingering inflation and high interest rates over the last 12 months, the Cyber Public Index of 21 vendors has risen by 30%. Additionally, from its January 2023 low, the Index has surged more than 66%, underscoring the sector’s robustness amidst a broader market recovery
- In the second half of 2024, cybersecurity trends to focus on include bad actors sophisticating their attacks through AI, identity solutions becoming increasingly important, CISOs focusing on shoring up the basics of their security practices and continuous threat exposure management (CTEM) continuing to be a top initiative for security leaders

Q2 2024 Cybersecurity M&A and Investment Volumes Increase Over Q1, Reversing Several Consecutive Quarterly Declines

OVERVIEW

- After consecutive quarterly declines, Q2-24 notched the highest cybersecurity mergers and acquisitions (M&A) deal volume since Q2-22, coming in at \$11.1 billion, substantially surpassing the five-year quarterly average of \$8.3 billion
- Although deal count decreased slightly from Q1-24, Q2's 45 transactions remain in-line with the five-year historical average
- Additionally, 1H 2024's deal volume of \$12.7 billion represents more than double 1H 2023's deal volume of \$5.2 billion, while deal count remained largely flat, signaling growing confidence in the M&A market as parties are willing to execute larger transactions
- Q2 also saw an uptick in growth investment activity for the first time in several quarters, with investment volumes increasing from Q1 and on a year-over-year basis (see chart on next page)
- Q2 growth investment deal count remained largely flat compared with Q1 and declined on a year-over-year basis, likely signaling some remaining interest rate uncertainty
- As 2024 progresses, it is becoming apparent that the deal environment is strengthening. Strategics and financial sponsors express growing eagerness to deploy capital for M&A and investment after a quiet 2023. With interest rates stabilizing and a record level of dry powder, conditions are increasingly in favor of hitting the go button as we anticipate what the remainder of 2024 will hold
- The pipeline of worthy cyber initial public offering candidates is extremely promising, and we anticipate a spate of companies going public when the window opens, which historically presages a strong rise in overall deal and investment activity

QUARTERLY CYBER M&A ACTIVITY



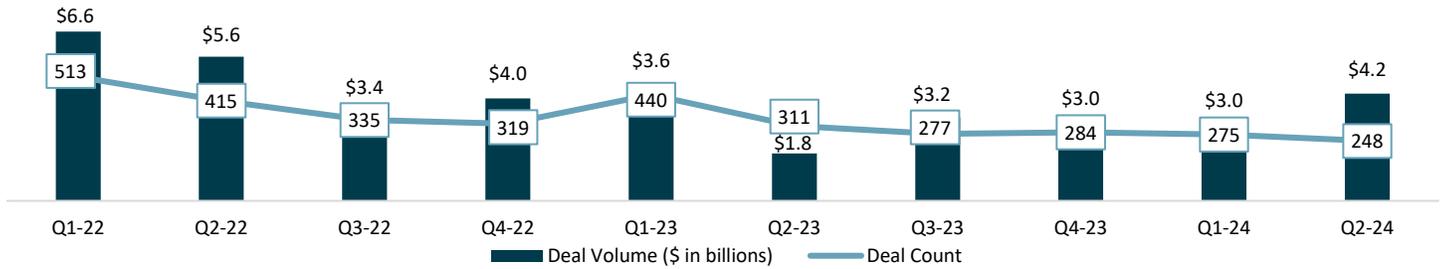
NOTABLE Q2 2024 CYBERSECURITY M&A TRANSACTIONS

Announced	Acquirer	Target, Subsector	Deal Value / Multiple of LTM Revenues	Announced	Acquirer	Target, Subsector	Deal Value / Multiple of LTM Revenues
Jun-24	Oakley Capital	i-TRACING MDR / MSSP	ND / ND	May-24	paloalto networks	Radar® SIEM (IBM divestiture)	\$500 million / 5.0x
Jun-24	PDI TECHNOLOGIES	nuspire MDR / MSSP	ND / ND	Apr-24	THOMABRAVO	DARKTRACE SecOps & IR	\$5.3 billion / 8.1x
Jun-24	FORTINET®	LACEWORK Cloud Security	ND / ND	Apr-24	KnowBe4	egress Messaging Security	ND / ND
Jun-24	tenable	eureka Data Security	\$30 million / ND	Apr-24	BeyondTrust	entitle IAM	ND / ND
Jun-24	Charlesbank	Quorum Cyber MDR / MSSP	ND / ND	Apr-24	zscaler®	AIRGAP Network & Infrastructure Security	ND / ND
May-24	CYBERARK®	Venafi IAM	\$1.5 billion / 10.3x	Apr-24	ARMIS.	silk. SecOps & IR	ND / ND
May-24	LogRhythm®	exabeam® SIEM	\$500 million / 3.3x	Apr-24	WIZ*	Gem Cloud Security	\$350 million / ND

Sources: 451 Research / S&P Capital IQ, Crunchbase, PitchBook, public sources and Lincoln estimates

Q2 2024 Cybersecurity M&A and Investment Volumes Increase Over Q1, Reversing Several Consecutive Quarterly Declines (cont.)

QUARTERLY CYBER GROWTH ACTIVITY

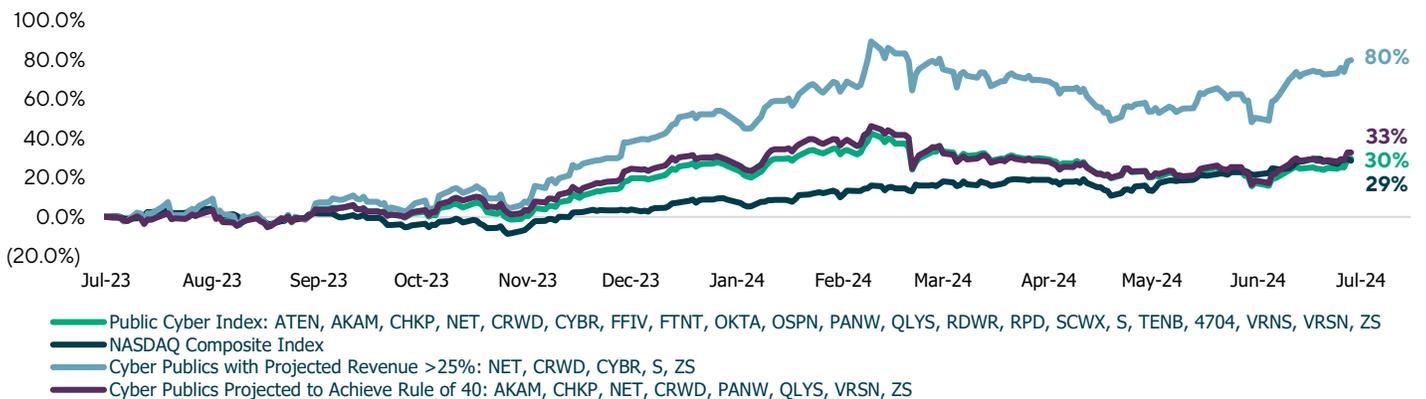


NOTABLE Q2 2024 CYBERSECURITY GROWTH INVESTMENTS

Announced	Company	Subsector	\$ Raised in Round	Announced	Company	Subsector	\$ Raised in Round
Jun-24	PortSwigger	Application Security	\$112 million	Apr-24	Corelight	Network & Infrastructure Security	\$150 million
Jun-24	HUNTRESS	Endpoint Security	\$180 million	Apr-24	Island	Web Security	\$175 million
May-24	WIZ	Cloud Security	\$1.0 billion	Apr-24	THREATLOCKER	Threat Intelligence	\$300 million
May-24	Lumos	IAM	\$35 million	Apr-24	CYERA	Data Security	\$300 million

Public Cyber Valuations Continue Strong Start in Q2 2024

- Over the last 12 months, the Cyber Public Index of 21 vendors increased by approximately 30%, outpacing the NASDAQ which increased by approximately 29% over the same period
- Through the completion of Q2, the Cyber Public Index has surged by 66% from its three-year low recorded on January 5, 2023, showcasing the continued strength of the sector alongside a broader recovery of public valuations
- Growth continues to be the primary driver of valuation, with publicly traded cybersecurity firms that are projected to achieve over 20% revenue growth in 2024 experiencing an 80% increase in stock prices over the past 12 months. However, it is worth noting that the heightened interest rate environment over the last 24 months has reduced the overall pool of investment capital, resulting in a strategic shift towards balancing profitability with growth. Reflecting this trend, 95% of publicly traded cyber vendors expect to achieve a positive EBITDA margin in 2024, a notable increase from just 52% in 2022



Sources: 451 Research / S&P Capital IQ, Crunchbase, PitchBook, public sources and Lincoln estimates

Looking Ahead to the Second Half of 2024 and Beyond

- Continued Exploitation of AI While Counterattacks Lag:** Cybercriminals are increasingly exploiting artificial intelligence (AI) to power their attacks with more realistic deepfakes and intricate phishing techniques. Generative AI tools can create advanced and more targeted business email compromise (BEC) campaigns, while voice cloning tools are seeing rapid development in their clarity and complexity, driving more dangerous social engineering attacks. However, while AI is being utilized to bolster security teams' ability to detect, track and respond to threats, the adoption of AI-driven solutions has lagged behind their accelerated utilization by bad actors, allowing these individuals to exploit the gap
- Increasing Importance of Identity:** The shift to the cloud has driven an increased necessity for identity, privileged access management (PAM); authentication (AuthN) and authorization (AuthZ) solutions to ensure only authorized access is granted to essential resources. The growth of Software as a Service (SaaS) application and the introduction of non-human entities necessitate the reinvention of these identity frameworks and reassessment of incumbent identity security measures. Implementing tools like multi-factor authentication (MFA) and advanced identity management is expected to be a focus for organizations as AI-fueled attacks place increased stress on identity management practices
- CISOs Focus on Simplification of Security:** Thus far, demand from CISOs for AI-powered solutions has not met the proliferation of these companies. Instead, many CISOs are prioritizing basic security hygiene initiatives, like patching old code with known vulnerabilities. Moreover, CISOs are tasked with greater disclosure and reporting requirements of their security incidents and risk management practices. As the AI-fueled threat landscape evolves rapidly, CISOs are addressing basic needs before tackling more complex initiatives. Solutions that efficiently assist CISOs with tasks like compliance, risk and governance and free them up to strategize around more advanced products, are expected to see increased demand
- CTEM Continues to Be a Top Initiative:** Surfaces for organizational attacks have continued to expand drastically through the first half of 2024, with digitalization and the rapid adoption of SaaS products increasing potential exposures. CTEM programs have helped security leaders by providing visibility into exposures, allowing for focused remediation of vulnerabilities. Features such as automated penetration testing and breach and attack simulation provide firms with constant vulnerability assessments, driving the anticipated continuation of CTEM as a top security initiative for firms

Recent Cyber Take-Private Activity and Leading Cyber IPO Candidates

Take-Private Announced	Acquirer	Target, Subsector	Enterprise Value	Upcoming IPO Candidate, Subsector	Most Recent Pre-Money Valuation with Equity Raise / Date ⁽¹⁾	Money Raised to Date ⁽²⁾
Apr-24	 THOMABRAVO	 DARKTRACE Network Security	\$5.4 billion	 WIZ Cloud Security	\$11.0 billion / May-24	\$1.8 billion
Feb-24	 HAVELI	 ZEROFOX Attack Surface Mgmt.	\$350 million	 netskope Cloud Security	\$7.2 billion / Jan-23	\$1.5 billion
Jan-24	 Hewlett Packard Enterprise	 JUNIPER NETWORKS Network Security	\$14.0 billion	 ARCTIC WOLF Managed Security	\$4.2 billion / Nov-23	\$1.1 billion
Sep-23	 CISCO	 splunk Data Analytics	\$28.0 billion	 snyk Application Security	\$7.2 billion / Jan-23	\$1.1 billion
May-23	 CROSSPOINT CAPITAL	 ABSOLUTE Network Security	\$870 million	 onetrust Risk & Compliance	\$4.4 billion / Jul-23	\$1.1 billion
Apr-23	 THOMABRAVO	 MAGNET FORENSICS Data Management	\$1.3 billion	 Fireblocks Blockchain Security	\$7.5 billion / May-24	\$1.0 billion

Note: (1) Includes latest disclosed series funding round; (2) Sum of known capital injected since last majority transaction or recapitalization

Recent Cyber Take-Private Activity and Leading Cyber IPO Candidates (cont.)

Take-Private Announced	Acquirer	Target, Subsector	Enterprise Value	Upcoming IPO Candidate, Subsector	Most Recent Pre-Money Valuation with Equity Raise / Date ⁽¹⁾	Money Raised to Date ⁽²⁾
Feb-23	 FIP FRANCISCO PARTNERS	 sumo logic Security Analytics	\$1.7 billion	 TANIUM Endpoint Security	\$8.9 billion / May-22	\$980 million
Oct-22	 THOMABRAVO	 ForgeRock IAM	\$2.3 billion	 1Password IAM	\$6.2 billion / Jan-22	\$950 million
Sep-22	 VISTA	 KnowBe4 Risk & Compliance	\$4.6 billion	 ARMIS IoT	\$3.4 billion / Nov-21	\$740 million
Aug-22	 THOMABRAVO	 PingIdentity IAM	\$2.7 billion	 illumio Cloud Security	\$2.8 billion / Aug-21	\$580 million
Aug-22	 opentext [™]	 MICRO FOCUS Messaging Security	\$5.8 billion	 transmit security IAM	\$2.2 billion / Jun-21	\$580 million
May-22	 BROADCOM	 vmware Cloud Security	\$61.0 billion	 THREATLOCKER Endpoint Security	\$870 million / Apr-24	\$240 million

Note: (1) Includes latest disclosed series funding round; (2) Sum of known capital injected since last majority transaction or recapitalization

Select Lincoln Cybersecurity M&A & Financing Transactions

sekoia

has received a minority equity investment from

BrightPixel | BANQUE des TERRITOIRES | BNP PARIBAS ASSET MANAGEMENT | MNES | Seventure

Capital Raise

FR

ERICOM
BE CONNECTED. BE SECURE
and its Israeli entity

have been sold to

cradlepoint
Connect Beyond

a part of

ERICSSON

Sell-Side

US IS

ELLIOTT

has sold

ThreatINSIGHT

a division of

Gigamon

to

FORTINET

Sell-Side

US

illusive

has been sold to

proofpoint

a portfolio company of

THOMABRAVO

Sell-Side

US

zecOps

has been sold to

jamf

Sell-Side

US

apax
NEWALPHA
ASSET MANAGEMENT

have acquired a majority stake of

MAILINBLACK

Buy-Side

FR

UCF **UNIFIED COMPLIANCE FRAMEWORK**
The Science of Compliance.

has been recapitalized by

Allomer Capital

Sell-Side

US

TURN // RIVER

has acquired and taken private

tufin

Acquisition Financing
Buy-Side

US

code42

has sold

CRASHPLAN

to

MILL POINT CAPITAL

Sell-Side

US

A majority stake of

eperi

has been sold to

EQUISTONE

Sell-Side

DE GB

IK Partners

has acquired

TRUESEC

from

SOBRO

Buy-Side

GB SE

Advent International **EURAZEO**

with

planet

have acquired

datatrans.

Buy-Side

US FR GB CH

SONTIQ

a portfolio company of

WICKS
FOUNDED 1989

has acquired

CYBERSCOUT

Acquisition Financing

US

DFLABS
DATA SECURITY FOR BUSINESS CONTROL

has been sold to

sumo logic

Sell-Side

IT US

Management and investors

ELRON **arvato**
BERTELSMANN

have sold

SECURETOUCH

to

Pingidentity

Sell-Side

US DE

AGARI

has been sold to

helpsystems

Sell-Side

US

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