

Cybersecurity Report

Q3 2024

INSIDE THIS ISSUE

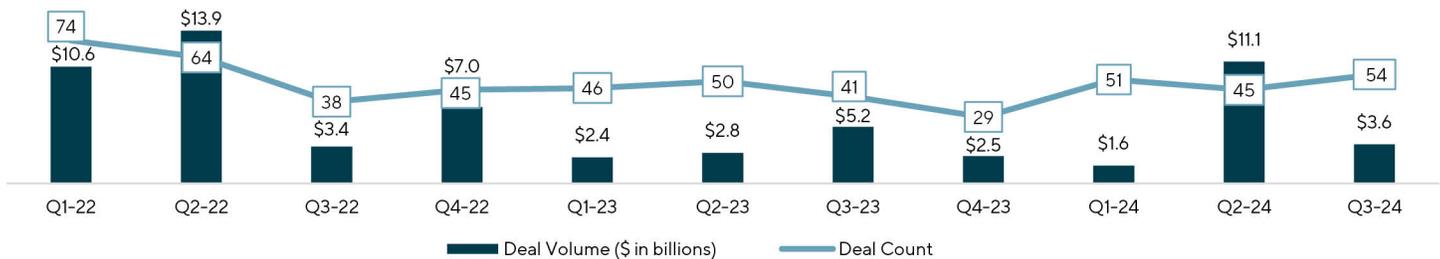
- Q3 2024 continued to see the strengthening of the cybersecurity M&A market observed in the first half of the year, led by the highest quarterly number of M&A transactions in the sector since Q2-22. Whereas 2023 saw depressed market activity due to geopolitical turmoil and high inflation rates, both cybersecurity M&A volume and deal count through the first three quarters of 2024 has been higher year-over-year
- Q3 deal activity was headlined by two \$1B+ M&A transactions in the sector. MasterCard's acquisition of Recorded Future (\$2.6 billion) and Clayton, Dubilier & Rice and Permira's take-private of Exclusive Networks (\$2.4 billion), both of which show the continued investor confidence in the cyber M&A market
- Q3 also saw the cyber sector emerge as a focal point in the aftermath of the July 17th IT outages due to a faulty update from CrowdStrike, who saw a 28% decrease in share price over the ensuing two weeks – investor confidence remains generally strong overall however, with Lincoln's Cyber Public Index up ~28% year-over-year
- Looking ahead to the last quarter of 2024 and 2025, September rate cuts are expected to positively influence cyber investment activity, which will be driven by robust demand for services, CTEM and IAM drawing increased attention and firms turning to M&A as they look to establish breach mitigation and response strategies

Q3 2024 Cybersecurity M&A Continues Positive Trajectory with Two Year Transaction Count High, while Investment is Poised for Growth

OVERVIEW

- After Thoma Bravo’s take-private of Darktrace boosted Q2-24 to notch the highest cybersecurity mergers and acquisitions (M&A) deal volume since Q2-22, Q3-24 saw deal volume normalize at \$3.6B, the third-highest volume since Q1-23
- The robust deal volume in Q3 was driven by 54 M&A transactions, the largest deal count since Q2-22, a signal that the cyber M&A market continues strengthening
- Additionally, 2024’s year-to-date deal volume of \$16.3B is outpacing 2023’s deal volume of \$10.4B over the same period, with 2024’s year-to-date deal count also exceeding 2023’s first three quarters total, signaling growing eagerness from the M&A market to execute larger transactions
- While Q3 saw M&A activity continue to strengthen, investment volume and deal count fell to their lowest levels since Q2-23 (see chart on next page)
- Q3 growth investment deal volume and count fell compared with Q2 and declined on a year-over-year basis, however September interest rate decreases suggest a rebound in cyber investment activity in Q4
- As the final quarter of 2024 arrives, the deal environment has evidently strengthened year-to-date, with strategics and financial sponsors showing a growing eagerness to deploy capital for M&A and investment after a quiet 2023. Interest rates decreasing in September and a two-year high of M&A deal count indicate market conditions are increasingly in favor of transactions
- Strategics have demonstrated a leading position in the M&A market, with 2024 seeing four \$500M+ cyber M&A transactions coming from strategic players, including Mastercard’s \$2.6B acquisition of Data Security firm Recorded Future in September

QUARTERLY CYBER M&A ACTIVITY



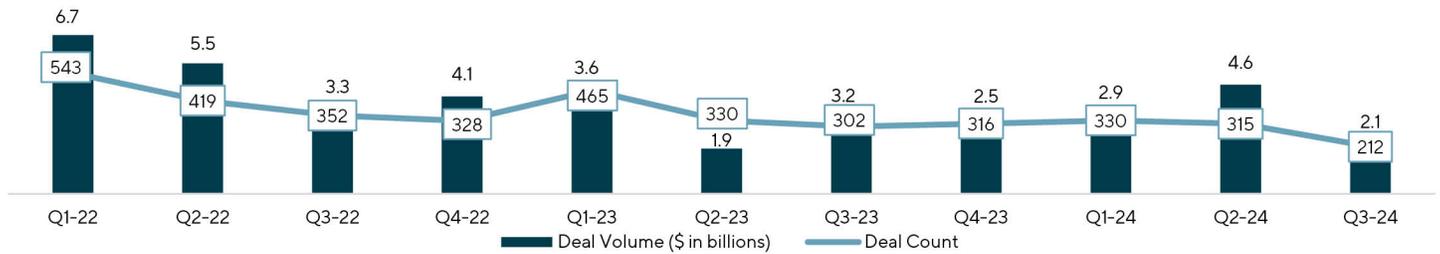
NOTABLE Q3 2024 CYBERSECURITY M&A TRANSACTIONS

Announced	Acquirer	Target, Subsector	Deal Value / Multiple of LTM Revenues	Announced	Acquirer	Target, Subsector	Deal Value / Multiple of LTM Revenues
Sep-24	VISA	FEATURE SPACE Anti-Fraud	ND / ND	Aug-24	CHECK POINT	Cyberint SIEM (IBM divestiture)	\$500 million / 5.0x
Sep-24	Quorum Cyber	DIFENDA Managed Security	ND / ND	Aug-24	CISCO	ROBUST INTELLIGENCE Application Security	\$5.3 billion / 8.1x
Sep-24	mastercard	Recorded Future® Data Security	\$2.6 billion / ND	Aug-24	digicert®	VERCARA Managed Security	ND / ND
Sep-24	ABSOLUTE	SYXSENSE Endpoint Security	ND / ND	Aug-24	FORTINET	next Data Security	ND / ND
Sep-24	MACQUARIE	BioCatch Network Management	ND / ND	Jul-24	mimecast	code42 Threat Intelligence	ND / ND
Sep-24	salesforce	Qwn Network Management	ND / ND	Jul-24	Authentix The Authority in Authentication	NANOTECH IAM	ND / ND
Aug-24	FALFURRIAS CAPITAL	MOXFIVE Managed Security	ND / ND	Jul-24	RAPID7	noetic Managed Security	\$350 million / ND

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

Q3 2024 Cybersecurity M&A Continues Positive Trajectory with Two Year Transaction Count High, while Investment is Poised for Growth (continued)

QUARTERLY CYBER GROWTH ACTIVITY



NOTABLE Q3 2024 CYBERSECURITY GROWTH INVESTMENTS

Announced	Company	Subsector	\$ Raised in Round	Announced	Company	Subsector	\$ Raised in Round
Sep-24	SECOND FRONT™	Cloud Security	\$70 million	Aug-24	Abnormal	Network Security	\$250 million
Sep-24	torq	No-Code Automation	\$70 million	Jul-24	chainguard	Zero Trust Security	\$300 million
Aug-24	Kiteworks	Network Security	\$456 million	Jul-24	Vanta	Data Security	\$300 million

Public Cyber Valuations Showed Resiliency in Q3 2024

- Over the last 12 months, Lincoln's Cyber Public Index of 21 vendors increased by ~28%, remaining in-line with year-over-year trends from Q1 and Q2 despite a tumultuous start to Q3, marked by widespread outages causing a significant sell-off of cyber publics
- Through the completion of Q3, the Cyber Public Index has surged by ~77% from its three-year low recorded on January 5, 2023, peaking at ~82% on February 9, 2024, showcasing both public valuations recovery and the continued focus on the sector
- Q3 was marked by the July 19th, 2024, IT outages caused by a faulty update distributed by CrowdStrike. The ensuing sell-off resulted in a 28% decrease in CrowdStrike's share price over the next two weeks with volume exceeding 200M shares during that time, dragging the Cyber Public Index as well as other high-growth publics down. Despite the Cyber Public Index recovering higher than the market, driven largely by lower growth cyber publics, prices have not been supported by increased volume



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

Looking Ahead to the Final Quarter of 2024 and Beyond

- Cyber Demand for Services Still Strong:** Despite recent investment favoring AI products that can offer automation of cybersecurity practices, cybersecurity service companies are seeing continued growth as managed services remain the dominant consumption method of cyber products. While customers are still looking to automate repetitive cyber practices, they are increasingly focused on seeking a vendor who can address all their cyber needs in one product suite. As a result, managed services companies are becoming the de facto “one stop” provider of the array of cyber products customers are having difficulty consuming from several different vendors
- CTEM Remains a Dominant Focus Area:** While businesses have continued their digital transformation and rapid adoption of SaaS products throughout 2024, the surface area for cyber vulnerabilities has continued to grow. As a result, CTEM programs have emerged as one of the best solutions to protect firms against breaches by identifying high-risk exposure as well as key trends. CTEM’s constant monitoring rapidly detects these high-risk areas of exposure within an organization and presents actionable insights to leaders, allowing them to more strategically allocate their security spend and resources
- Identity Management a Top Priority:** While major cybercrime groups pose hacking threats to organizations, breached identities have emerged as one of the leading causes of data breaches. As less sophisticated bad actors seek to intercept credentials or session cookies using information stealing malware, organizations are having to focus on threats that occur during log in rather than from a bad actor hacking in. With the shift to the cloud and rise of remote work, firms have an increased necessity for identity solutions spanning privileged access management (PAM), authentication (AuthN) and authorization (AuthZ) to ensure valuable data is only being accessed by authorized parties
- Spotlight on Mitigating Breaches and Business Continuity Strategy:** Q3 started off with Ticketmaster, who controls over 70% of the live event ticketing market, announcing a data breach of over 500 million customers. Shortly thereafter, a faulty update to CrowdStrike’s Falcon Sensor software caused roughly 8.5 million Microsoft Windows systems to crash, creating widespread outages of essential transportation and emergency government services. As 2024 heads into its final quarter, high profile companies with massive amounts of customer data are under scrutiny to shore up their security systems, with M&A presenting possible plug and play solutions

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⁾
Jul-24	 PERMIRA	 EXCLUSIVE NETWORKS Managed Security	\$2.4 billion	 Abnormal Network Security	\$5.1 billion / Aug-24	\$535 million
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

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⁾
Apr-23	 THOMABRAVO	 Data Management	\$1.3 billion	 Fireblocks Blockchain Security	\$7.5 billion / May-24	\$1.0 billion
Feb-23	 FP FRANCISCO PARTNERS	 Security Analytics	\$1.7 billion	 TANIUM Endpoint Security	\$8.9 billion / May-22	\$980 million
Oct-22	 THOMABRAVO	 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	 IAM	\$2.7 billion	 illumio Cloud Security	\$2.8 billion / Aug-21	\$580 million
Aug-22	 opentext [™]	 Messaging Security	\$5.8 billion	 transmit IAM	\$2.2 billion / Jun-21	\$580 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

Afinum
has agreed to sell



to



Sell-Side



ERICOM
and its Israeli entity
have been sold to



a part of



Sell-Side



ELLIOTT
has sold

ThreatINSIGHT
a division of



to



Sell-Side



illusive
has been sold to

proofpoint
a portfolio company of



Sell-Side



sekoia
has received a minority
equity investment from







Capital Raise



apax
NEWALPHA
ASSET MANAGEMENT
have acquired a
majority stake of



Buy-Side



UCF UNIFIED COMPLIANCE FRAMEWORK™
"The Science of Compliance."
has been recapitalized by



Sell-Side



TURN // RIVER
has acquired
and taken private



Acquisition Financing
Buy-Side



zecOps
has been sold to



Sell-Side



A majority stake of



has been sold to



Sell-Side



IK Partners
has acquired

TRUESEC
from



Buy-Side



Advent International **EURAZEO**
with

'planet
have acquired

'datatrans.

Buy-Side



code42
has sold



to



Sell-Side



DFLABS
has been sold to

sumo logic

Sell-Side



Management and investors



have sold



to



Sell-Side



AGARI
has been sold to



Sell-Side



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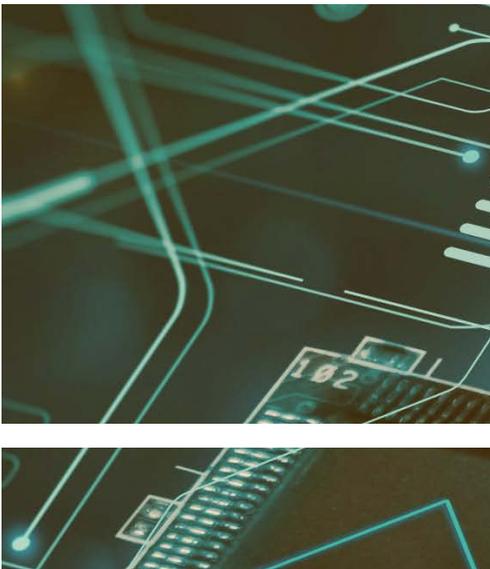
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