

Cybersecurity



Inside This Issue

- Cybersecurity Dealmaking Continues Showing Resilience in Q2 2022 Despite Market Headwinds, with H1 2022 M&A Volume at Near-Record Levels (Though a Material Decline from H1 2021), and Median Announced Revenue Valuation Multiples Declining Only Modestly
- Venture Investing Volumes also Remain Near-Record Levels in H1 2022, with Strongest Interest in Cloud Security, Zero Trust, Identity and Data Protection and Managed Security Services
- The Recently Announced Take-Private of Ping Identity by Thoma Bravo Marks the 11th Go-Private Transaction Since the Start of 2021 and Speaks to a View that Public Valuations may be Approaching a Bottom. This is Supported by the Fact that 72% of Cyber Publics Hold an Average Broker Rating of “Outperform” or Better. Further, the Vast Majority of Cyber Publics Reporting this Quarter So Far Have Exceeded Revenue and EPS Expectations
- The Universe of Investors and Buyers Active in Cyber Continues to Widen, and Financial Sponsors Continue Successfully Raising Additional Funds for Investment; However, the Market is Strongly Discerning, and More than Ever Focused on Companies Displaying Operational Excellence
- 2022 Year-To-Date Key Themes and Trends Include the Need to Rethink Identity Both at Human and Machine Levels, Rapidly Rising Demand for Managed Detection and Response, Broad Consensus on Zero Trust Framework Adoption, Race to Secure Public Cloud Infrastructure and Workloads, and Urgent Need to Bolster Defenses Against Cyber Warfare

Q2 2022 Report

 **LINCOLN**
INTERNATIONAL

Q2 2022 Cybersecurity Deal Activity Shows Resiliency

Overview

- **Q2 2022 cyber mergers and acquisitions (M&A) demonstrated relative buoyancy despite broader headwinds. H1 2022 cybersecurity M&A volume** of \$21.9 billion, while a decline versus 2021's record first half of \$33.9 billion, exceeds full year 2020 of \$20 billion and is the second highest first half ever
- H1 2022 cybersecurity deal count increased over H1 2021 to 112 transactions, versus 93 over the same period last year
- Public market declines year-to-date drove only 6% lower median disclosed M&A enterprise value (EV) / revenue valuations in H1 2022 of 7.8x versus 8.3x in 2021
- **H1 2022 venture / growth investing remained strong**, despite market uncertainty, finishing the half with near record total funding of \$11 billion across 586 companies. In comparison, H1 2021 saw \$13 billion in funding across 653 companies
- Early Q3 results suggest continuation of relative deal activity strength, with notable transactions including the announced merger of PerimeterX and Human Security (\$1.5 billion) and Thoma Bravo's take-private acquisition of Ping Identity (\$2.8 billion)
- Cyber sector continues to show robust growth prospects, as spending drivers remain powerful. These include rapid digitalization and cloud migration, rising cyber crime and nation-state attacks and increasingly stringent data protection laws
- Overall private equity (PE) fundraising is on pace for a record year despite wavering public markets, as U.S. financial sponsors raised \$176 billion across 191 funds in the first six months of 2022, versus last year's total funds raised of \$340 billion

Notable Q2 2022 Cybersecurity M&A Transactions

Announced	Acquirer	Target, Subsector	Deal Value / Multiple of LTM Revenues	Announced	Acquirer	Target, Subsector	Deal Value / Multiple of LTM Revenues
Apr-22	THOMABRAVO	SailPoint Enterprise Identity Security	\$7 billion / 15.2x	Jun-22	netskope	WootCloud Enterprise Internet of Things (IoT) Security	NA
Apr-22	KKR	Barracuda [®] Security, Application Delivery and Data Protection	\$4 billion / 7.3x	Jun-22	IBM	Randori Attack Surface Management Software as a Service (SaaS)	NA
Apr-22	SYNOPSYS [®]	NTT Applicator Security Application Security	\$330 million / 4.4x	May-22	KROLL	CRICED Real Time Risk Intelligence	NA
Jun-22	RELIAQUEST	digital shadows Digital Risk Protection	\$160 million / 6.4x	May-22	AXIOLOGIC solutions	dataintelligence Security Consulting	NA
Apr-22	DXC technology / bv	Radiflow OT Cyber Security	\$45million / NA	May-22	UNS	CyberPeak Solutions Information Security	NA
Jun-22	Content Services Group	CYREN ¹ Email Security Division	\$11 million / NA	May-22	DATADOG	Hdiv Application Security	NA
Jun-22	XM Cyber	CYBER OBSERVER Continuous cybersecurity assessment	NA	Apr-22	SOPHOS	SOC:OS Security Operations and Threat Detection	NA
Jun-22	FORESCOUT	CYSIV A FORESCOUT COMPANY Security operations center as a Service	NA	Apr-22	DEVO	KOGNOS autonomous XDR investigator Cyber Threat Hunting	NA

Sources: S&P/451 Research, Crunchbase, Pitchbook, public sources and Lincoln estimates
¹Carve-out of Cyren's Email Security Division

Q2 2022 Cybersecurity Investment Activity Shows Robustness Despite Macro Headwinds

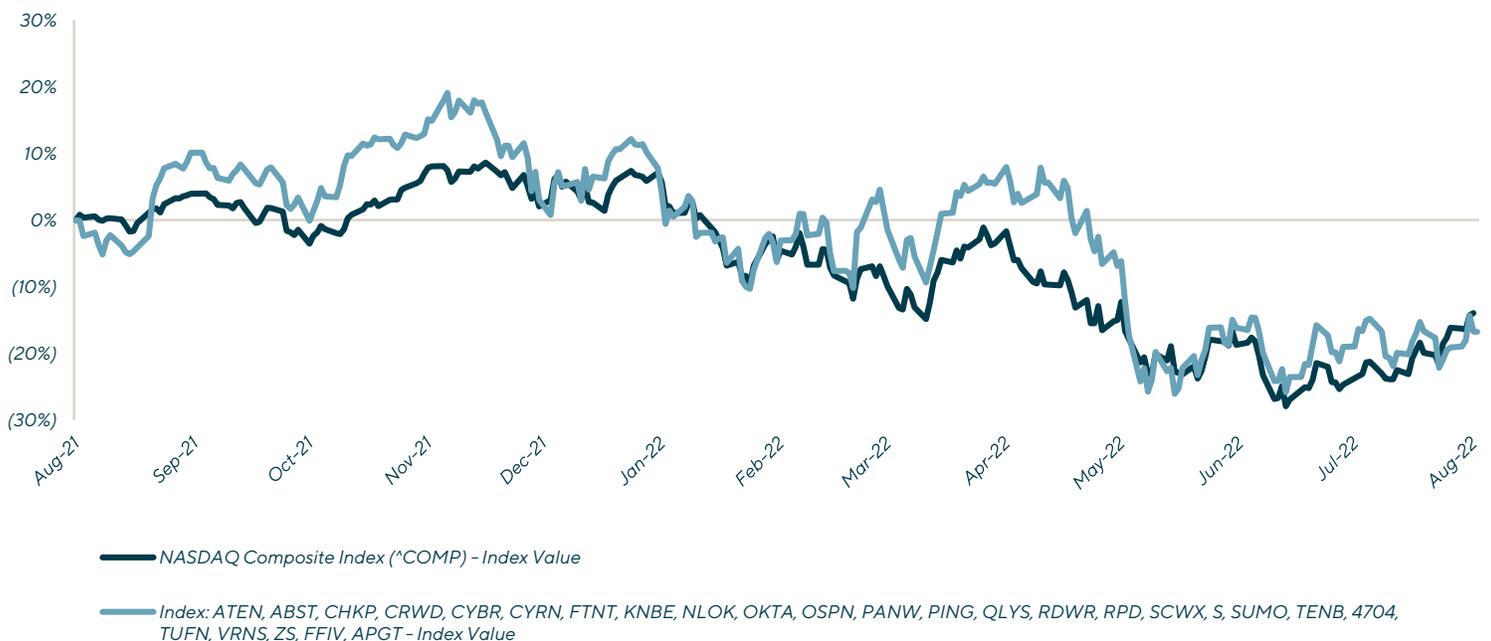
Sector viewed as resilient in a turbulent macro environment

Notable Q2 2022 Cybersecurity Growth Investments

Announced	Company	Subsector	\$ Raised in Round	Announced	Company	Subsector	\$ Raised in Round
Jun-22	 Normalyze [™] <small>data-first cloud security</small>	Cloud data security	\$22 million	May-22	 Dig	Data detection and response solution	\$11 million
Jun-22	 Cyberint	Digital Risk Protection and Threat Intelligence	\$40 million	May-22	 NISOS	Managed Intelligence	\$15 million
Jun-22	 GREYNOISE	Network data analysis	\$15 million	May-22	 TRACEABLE	API Security	\$60 million
Jun-22	 AppOmni	SaaS security and SSPM solutions	\$70 million	Apr-22	 FORTRESS	Cyber Supply Chain Risk	\$125 million
Jun-22	 ordr	IoT security	\$40 million	Apr-22	 Securden	Zero Trust PAM	\$10 million
Jun-22	 whistic	Vendor security	\$34 million	Apr-22	 sentra	Cloud Data Security	\$23 million
May-22	 redaccess	Secure Browsing	\$6 million	Apr-22	 Corsha	API and Access Management	\$12 million

Cybersecurity Public Index Falls in Line with Broader NASDAQ Declines

- Over the last 12 months, the Index of Public Cyber vendors is down 23%, versus NASDAQ's decline of 18%
- The dispersion of revenue valuation multiples across cyber publics is broadening, as investor discernment sharpens
- Markets continue to reward high revenue growth or profitability**, with cyber publics having neither materially underperforming the broader index
- Go-private activity continues, with Thoma Bravo recently announcing its acquisition of Ping Identity, which would be the 11th take-private since the beginning of 2021



Cyber Publics are Arguably Oversold

Customer demand growth and ability to manage inflation remain solid

- As of this writing, most vendors have not disclosed Q2 results, however nine of 11 reporting beat earnings per share (EPS) expectations and 10 of 11 beat revenue expectations (see table below)
 - In Q1, 81% exceeded EPS expectations and 85% exceeded revenue projections
- The large number of take private deals, combined with strongly positive equity analyst ratings suggest valuations (72% of cyber publics have an average broker rating of “outperform” or better) - subject to future performance indicators - may have neared bottom

Q2 2022 Cyber Public Performance

	Actual EPS (USD)	Beat or Miss (USD)	Actual Revenue (dollars in millions)	Beat or Miss (\$M) (dollars in millions)
Cloudflare, Inc.	0.00	beat by 0.01	234.5	beat by 7.2
Fortinet, Inc.	0.24	beat by 0.02	1,030.1	beat by 2.5
KnowBe4, Inc.	0.07	beat by 0.05	80.8	beat by 1.4
Rapid7, Inc.	-0.01	beat by 0.03	167.5	beat by 3.3
Tenable Holdings, Inc.	0.05	beat by 0.04	164.3	beat by 1.1
Varonis Systems Inc.	0.00	beat by 0.01	111.4	beat by 0.2
A10 Networks, Inc.	0.17	beat by 0.02	68.0	beat by 0.5
Check Point Software Technologies Ltd.	1.64	beat by 0.03	571.1	beat by 10.7
F5, Inc.	2.57	beat by 0.34	674.5	beat by 6.7
OneSpan Inc.	-0.10	miss by -0.01	52.8	beat by 1.6
Ping Identity Holding Corp.	-0.34	miss by -0.22	72.0	miss by -1.3

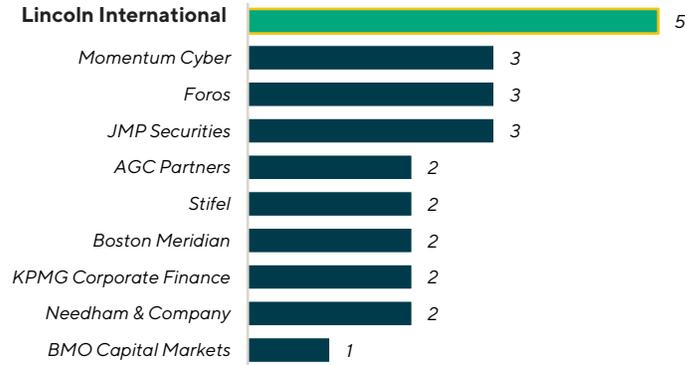
Source: Capital IQ

2022 Year-To-Date State of Cyber Assessment

- Emerging technologies, new computing paradigms, advanced hardware and digitalization together are rapidly accelerating global transformation - and simultaneously, creating new attack surfaces and greatly increasing security risks. Protecting progress requires more, faster, stronger cybersecurity innovation. Consequently, Lincoln International projects continuing elevated levels of investment and M&A activity in the cybersecurity sector as well as healthy valuations, for the foreseeable future. This is despite macroturbulence, which does not trump the industry’s overwhelmingly powerful secular demand trends. There is neither a shortage of cybersecurity capital or customer demand - only innovation is scarce, and we need a lot of it going forward
- Lincoln meets around the world with investors, entrepreneurs, corporates and industry experts to stay abreast of cyber trends. Most recently, Lincoln attended the 2022 RSA Conference in San Francisco, Cyberweek 2022 in Tel Aviv, Israel, and InfoSec 2022 in London. Based on our discussions across the globe, and our sector deal activity (11 cyber M&A transactions since start of 2021), we see several themes resounding across the cybersecurity community
 - Most importantly, confidence in the strength of the cybersecurity market remains high. According to a recent survey conducted by Lincoln, most leading security professionals expect transaction activity and valuations to remain steady or even increase in the near term. We also see an over-indexing of investment in all things public cloud security related; cyber managed services; education and training; automated, continuous identity protection, and threat detection and response across enterprise resources. Extended detection and response, security access service edge and zero trust frameworks appear to have become permanent categories for industry innovation and spend growth
- At Lincoln’s annual CEO Cybersecurity Dinner at RSA in June, leaders from many valuable cyber vendors met to discuss the state of the industry. The general consensus was that we are entering a new stage where cybersecurity’s role is extending into all of our daily lives, protecting critical infrastructure, bank transactions, food supply, etc., and that the challenges portend tremendous growth in investment and spending. Further, vendors should focus on being the best at a specific need and to be flexible as those needs evolve. A sense of optimism pervaded our event regarding the long-term opportunities ahead for industry innovators, despite market turmoil

Lincoln International is a Leading Banker to Cybersecurity Leaders

2021 Cyber Security Deals <\$500 million
M&A Banking Leaders (# of deals)



2021 Cyber Security M&A Banking Leaders (# of deals)



Select Recent Lincoln Banker Cybersecurity M&A & Financing Activity

<p>UNIFIED COMPLIANCE FRAMEWORK The Science of Compliance.SM</p> <p>has been recapitalized by</p> <p>Allomer Capital</p> <p>Sell-Side</p> <p></p>	<p>TURN // RIVER</p> <p>has agreed to acquire and take private</p> <p>tufin</p> <p>Acquisition Financing Buy-Side</p> <p> </p>	<p>A majority stake of</p> <p>eperi</p> <p>has been sold to</p> <p>EQUISTONE</p> <p>Sell-Side</p> <p> </p>	<p>IK Partners</p> <p>has acquired</p> <p>TRUESEC</p> <p>from</p> <p>SOBRO</p> <p>Buy-Side</p> <p> </p>	<p>DFLABS</p> <p>has been sold to</p> <p>sumo logic</p> <p>Sell-Side</p> <p> </p>
<p>WICKS</p> <p>has sold</p> <p>SONTIQ</p> <p>to</p> <p>TransUnion</p> <p>Sell-Side</p> <p></p>	<p>portshift</p> <p>has been sold to</p> <p>CISCO</p> <p>Sell-Side</p> <p> </p>	<p>Bay Dynamics</p> <p>has been sold to</p> <p>BROADCOM</p> <p>Sell-Side</p> <p></p>	<p>AGARI</p> <p>has been sold to</p> <p>helpsystems</p> <p>Sell-Side</p> <p></p>	<p>BullGuard</p> <p>has been acquired by</p> <p>Avira</p> <p>Sell-Side</p> <p> </p>
<p>Advent International EURAZEO</p> <p>with</p> <p>planet</p> <p>have acquired</p> <p>datatrans.</p> <p>Buy-Side</p> <p> </p>	<p>abry partners</p> <p>has sold</p> <p>SiteLock</p> <p>to</p> <p>SECTIGO</p> <p>a portfolio company of</p> <p>GI PARTNERS</p> <p>Sell-Side</p> <p></p>	<p>SSL247</p> <p>has been sold to</p> <p>SECTIGO</p> <p>a portfolio company of</p> <p>GI PARTNERS</p> <p>Sell-Side</p> <p> </p>	<p>R9B</p> <p>has been sold to</p> <p>Deloitte</p> <p>Sell-Side</p> <p></p>	<p>Management and investors</p> <p>ELRON arvato BERTELSMANN</p> <p>have sold</p> <p>SECURETOUCH</p> <p>to</p> <p>Pingidentity</p> <p>Sell-Side</p> <p> </p>

* Completed by Lincoln professional while employed at a prior firm



Lincoln's Global Technology, Media & Telecom Group

Connected to Clients' Ambitions

Encompassing both physical assets and intellectual property, the technology, media & telecom (TMT) industry has expansive opportunities for investors and entrepreneurs. Our global network of professionals, our strong relationships with industry leaders and our deep expertise in a variety of TMT verticals combine to serve the unique needs of clients capitalizing on change within a sector that is highly integrated into nearly every service and product. Our connections, along with our track record of exceptional results, give us the edge to provide our clients with creative and innovative financial solutions.

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