

# Cybersecurity



## Inside This Issue

- Cyber M&A and Investment Levels Remain Above Average in Q3 and YTD 2022 Despite Macro Market Headwinds
- Vast Majority of Cyber Publics Continue Exceeding Revenue and Earnings-Per-Share Expectations in Q3
  - In Q3, 75% of Cyber Publics Hold an Average Broker Rating of “Outperform” or Better
- Sector Investment Volumes Remain at Near-Record Levels, As Private Capital Continues to be Freely Available and Cyber Remains an Alpha Sector
- Take-Private Activity Continues at Relatively High Premiums Including, Most Recently, ForgeRock, KnowBe4 and Ping Identity, Which Can Be Viewed as a Bullish Signal
- October, Security Awareness Month, Saw Record Ransomware, Mobile Device and Cloud Infrastructure Attacks
- Investment Priorities Include Cloud Identity, Data and Application Security, and Internal / External Attack Surface Management, as Mass Exodus to the Cloud Continues Amidst Lack of Sufficient Security and Know-How

Q3 2022 Report

# Q3 2022 Cybersecurity Deal Activity Levels Remain Above Historical Averages

## Overview

- **Q3 2022 cyber mergers and acquisitions (M&A) continue to demonstrate relative buoyancy.** Year-to-date (YTD) Q3 2022 cybersecurity M&A volume of \$25 billion, while a decline compared to 2021's record of \$49 billion through Q3, exceeds full year 2020's volume of \$20 billion and is the second highest volume through the first three quarters ever
- Deal count remained strong through the first three quarters of 2022 at 152 transactions, versus 159 through Q3 2021
- Public market declines drove only 10% lower median disclosed M&A enterprise value (EV) / revenue valuations through Q3 2022 of 8.1x versus 9.0x through Q3 2021
- **2022 cyber venture / growth investing remained strong** despite market uncertainty, finishing Q3 with near total funding of \$16 billion across 889 companies YTD. In comparison, the first three quarters of 2021 saw \$20 billion in funding across 998 companies
- Early Q4 results suggest continuation of relative deal activity strength, with notable transactions including Vista Equity's take-private of KnowBe4 (\$4.6 billion) and Thoma Bravo's take-private acquisition of ForgeRock (\$2.3 billion)
- Overall private equity (PE) fundraising has remained resilient despite wavering public markets, as U.S. financial sponsors raised \$259 billion across 296 funds through Q3 of 2022, versus last year's total funds raised of \$366 billion

## Notable Q3 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
Aug-22	 opentext™	 <b>MICRO FOCUS</b> <sup>(1)</sup> Security, Information, and Event Management (SIEM), Application Security	\$5.7 billion / 2.1x	Sep-22	 CROWDSTRIKE	 Reposify External Attack Surface Management	NA
Aug-22	 THOMABRAVO	 PingIdentity® Identity and Access Management	\$2.7 billion / 9.1x	Sep-22	 helpsystems	 OUTFLANK Information Technology (IT) Security Integration	NA
Jul-22	 HUMAN	 perimeterx Web & Mobile Application Security	\$1.5 billion	Sep-22	 jamf	 zecOps Mobile Cyberattack Discovery	NA
Sep-22	 newfold digital	 MarkMonitor™ Anti-Fraud	\$303 million	Aug-22	 FLASHPOINT	 Echosec™ Security Intelligence Software as a Service (SaaS)	NA
Sep-22	 THALES	 onewelcome Identity and Access Management	\$102 million	Jul-22	 riskconnect.	 Castellan Cybersecurity Services	NA
Sep-22	 DEVO	 LogicHub Security Operations & Incident Response	NA	Jul-22	 VITRUVIAN PARTNERS	 Outpost24 Attack Simulation / Red Teaming	NA

Sources: S&P/451 Research, Crunchbase, Pitchbook, public sources and Lincoln estimates

Note: (1) Microfocus is a software conglomerate with substantial cybersecurity revenues but not a pure-play cyber vendor

# Q3 2022 Cybersecurity Investment Activity Shows Robustness Despite Macro Headwinds

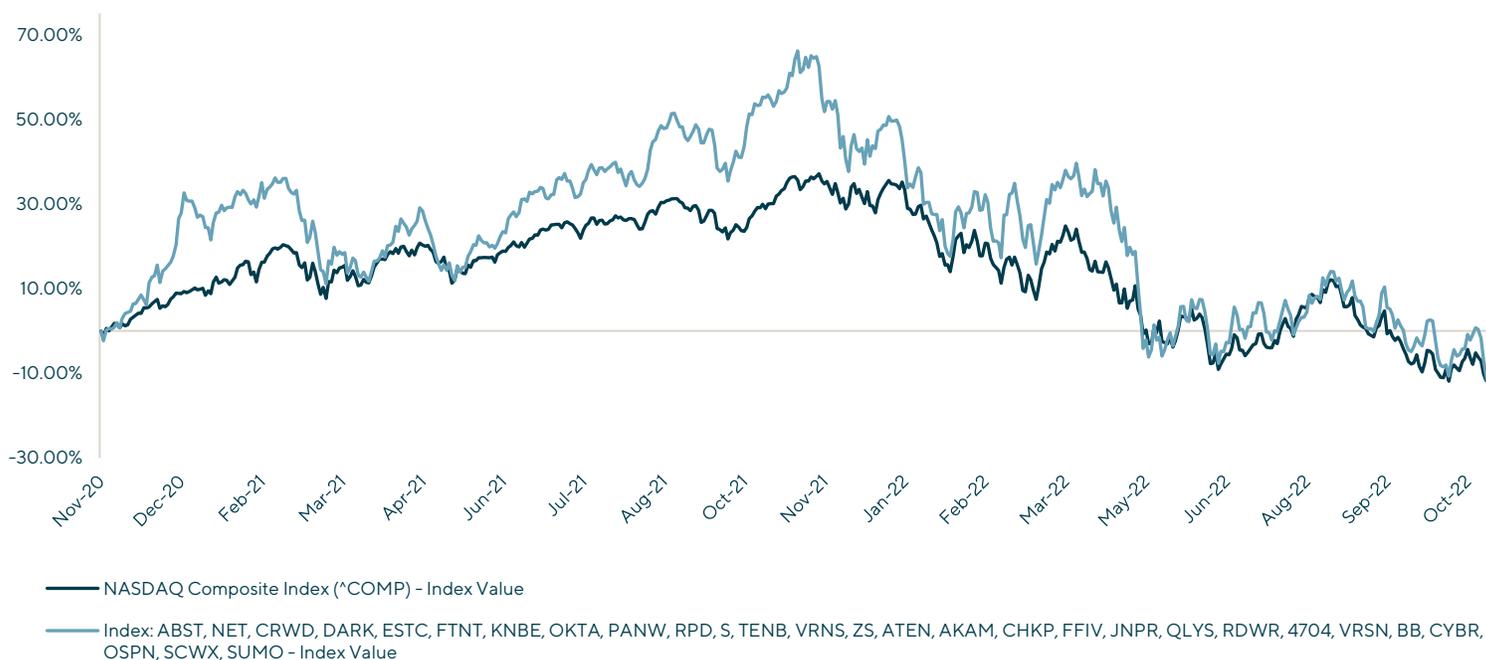
Sector viewed as resilient in a turbulent macro environment

## Notable Q3 2022 Cybersecurity Growth Investments

Announced	Company	Subsector	\$ Raised in Round	Announced	Company	Subsector	\$ Raised in Round
Jul-22	Coalition	Cyber Insurance Risk and Compliance	\$250 million	Jul-22	BISHOPFOX	Attack Surface Management	\$75 million
Sep-22	DRATA	Data Security	\$128 million	Jul-22	SWIMLANE	Security Operations and Incident Response	\$70 million
Sep-22	bitwarden	Identity and Access Management	\$100 million	Sep-22	deepinstinct	Endpoint Protection	\$62 million
Sep-22	Malwarebytes	Endpoint Security	\$100 million	Aug-22	THREATX	Application Security	\$30 million
Aug-22	TALON	Web Security	\$100 million	Aug-22	zilla SECURITY	Identity and Access Management	\$14 million
Sep-22	Fortanix	Data Security	\$90 million	Aug-22	SYNSABER	Endpoint Security	\$13 million

## Cybersecurity Public Index Falls in Line with Broader NASDAQ Declines

- Over the last 12 months, the Index of Public Cyber Vendors is down 11.6%, versus NASDAQ's decline of 9.4%. However, the Index of EBITDA-Positive Cyber Vendors is actually up 2% over the past year
- The dispersion of revenue valuation multiples across cyber publics is broadening, as investor discernment sharpens – a trend that is now also clear in the private markets with funds continuing to reward high revenue growth and / or profitability
- Go-private activity continues, with Vista Equity's take-private of KnowBe4 (\$4.6 billion) and Thoma Bravo's take-private acquisition of ForgeRock (\$2.3 billion)
  - Half of the cybersecurity vendors that were public at the start of 2021 are now private or in the process of being taken private



# Cyber Publics are Arguably Oversold

## Customer demand growth and ability to manage inflation remain solid

- As of this writing, not all vendors have disclosed Q3 results, however 13 of 15 reporting beat earnings per share (EPS) expectations and 12 of 15 beat revenue expectations (see table below)
- The large number of take private deals at high premiums, combined with strongly positive equity analyst ratings, suggest valuations – subject to future performance indicators – may have neared bottom (75% of cyber publics have an average broker rating of “outperform” or better)

## Q3 2022 Cyber Public Performance

	Actual EPS (USD)	Beat or Miss (USD)	Actual Revenue (dollars in millions)	Beat or Miss (dollars in millions)
AIO Networks, Inc.	0.20	beat by .02	72.1	beat by 1.1
Akamai Technologies, Inc.	1.26	beat by .04	881.9	beat by 5.9
BlackBerry Limited	-0.05	beat by .02	168.0	beat by 2.2
Check Point Software Technologies Ltd.	1.77	beat by .10	577.6	beat by 5.8
Cloudflare, Inc.	0.06	beat by .06	253.9	beat by 4.1
CyberArk Software Ltd.	-0.06	beat by .15	152.7	beat by 1.8
F5, Inc.	2.62	beat by .10	700.0	beat by 8.1
Fortinet, Inc.	0.33	beat by .06	1149.5	beat by 25.6
Juniper Networks, Inc.	0.58	beat by .08	1414.6	beat by 66.4
OneSpan Inc.	0.03	beat by .14	57.1	beat by 4.5
Qualys, Inc.	0.94	beat by .08	125.6	beat by 1.0
Radware Ltd.	0.15	miss by -.01	70.5	miss by -3.9
Rapid7, Inc.	0.14	beat by .09	175.8	miss by -0.5
Tenable Holdings, Inc.	0.15	beat by .12	174.9	beat by 4.6
Varonis Systems, Inc.	0.05	miss by -.01	123.3	miss by -1.1

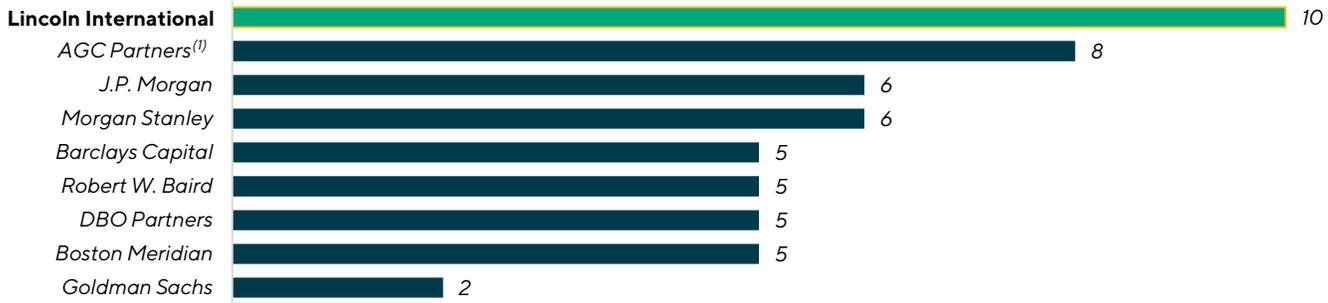
Source: Capital IQ

## 2022 Year-To-Date State of Cyber Assessment

- The now-dominant, cloud-based computing paradigm has most end users utilizing, and increasing reliance on, cloud-delivered services and applications on a global scale, creating an expanded attack surface of vulnerable credentials, application programming interfaces (APIs), apps and data; this will drive ongoing elevated levels of sector investment and M&A despite public market and macro turbulence
- October, Security Awareness Month, saw record ransomware, mobile device and cloud infrastructure attacks
- Lincoln International continually meets with leading investors, entrepreneurs and strategic players in the ecosystem, where currently we see the following themes:
  - Top five inquiries: identity access management (IAM), managed detection and response (MDR), data security, cloud security and application security (AppSec)
  - Appetite for cash burn has obviously declined; however, growth remains the primary value driver – most investments in Q3 were made in companies that are currently unprofitable; negative EBITDA with progress toward a clear crossover point is still attractive
  - Public strategics across the board are becoming more active and interested in making minority investments
  - The cyber initial public offering (IPO) backlog has never been stronger, which will drive significant going-public activity when the IPO market opens
  - Lincoln’s mid-year cyber executive survey found that most believe investment and M&A activity will rise or at least remain stable, prodded by an ongoing replacement cycle of older security solutions, adoption of new products and total addressable market (TAM) growth

# Lincoln International is a Leading Banker to Cybersecurity Leaders

Cybersecurity M&A Banking Leaders by Deal Count  
(2021 - YTD 2022)



Source: 451 Research

Note: (1) Excludes asset acquisition

## Select Recent Lincoln Banker Cybersecurity M&A & Financing Activity

<p>has agreed to be sold to</p> <p>Sell-Side</p>	<p>UNIFIED COMPLIANCE FRAMEWORK<sup>®</sup> The Science of Compliance.<sup>®</sup></p> <p>has been recapitalized by</p> <p>Sell-Side</p>	<p>has acquired and taken private</p> <p>Acquisition Financing Buy-Side</p>	<p>A majority stake of</p> <p>has been sold to</p> <p>Sell-Side</p>	<p>IK Partners</p> <p>has acquired</p> <p>from</p> <p>Buy-Side</p>
<p>has been sold to</p> <p>Sell-Side</p>	<p>has sold</p> <p>to</p> <p>Sell-Side</p>	<p>has been sold to</p> <p>Sell-Side</p>	<p>has been sold to</p> <p>Sell-Side</p>	<p>has been sold to</p> <p>Sell-Side</p>
<p>has been acquired by</p> <p>Sell-Side</p>	<p>EURAZEO</p> <p>with</p> <p>have acquired</p> <p>Buy-Side</p>	<p>has sold</p> <p>to</p> <p>a portfolio company of</p> <p>Sell-Side</p>	<p>has been sold to</p> <p>a portfolio company of</p> <p>Sell-Side</p>	<p>has been sold to</p> <p>Sell-Side</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.

## Contributors

### Don More

Managing Director | New York  
+1 (917) 722-8648  
dmore@lincolninternational.com

### Matthieu Rosset

Managing Director | Paris  
+33 (0) 1 53 53 17 23  
mrosset@lincolninternational.com

### Chris Brooks

Managing Director | London  
+44 20 7632 5248  
cbrooks@lincolninternational.com

### Milan Saric-Toplica

Managing Director | München  
+49 69 97105-405  
msaric@lincolninternational.com

### Gunnar Brundin

Managing Director | Nordics  
+46 (0)73 855 0113  
gbrundin@lincolninternational.com

### Alejandro Yu

Director | New York  
+1 (212) 277-8108  
ayu@lincolninternational.com

### Edward Lethbridge

Managing Director | London  
+44 20 7632 5224  
elethbridge@lincolninternational.com

### Johanna Lannvik

Vice President | London  
+44 20 7632 5225  
jlannvik@lincolninternational.com

## Advisory Services

Mergers & Acquisitions  
Capital Advisory  
Private Funds Advisory  
Valuations & Opinions

## About Lincoln International

We are trusted investment banking advisors to business owners and senior executives of leading private equity firms and their portfolio companies and to public and privately held companies around the world. Our services include mergers and acquisitions advisory, private funds and capital markets advisory, and valuations and fairness opinions. As one tightly integrated team of more than 800 professionals in more than 20 offices in 15 countries, we offer an unobstructed perspective on the global private capital markets, backed by superb execution and a deep commitment to client success. With extensive industry knowledge and relationships, timely market intelligence and strategic insights, we forge deep, productive client relationships that endure for decades. Connect with us to learn more at: [www.lincolninternational.com](http://www.lincolninternational.com).

Connect with Lincoln International's Technology, Media & Telecom Group at [www.lincolninternational.com/technology](http://www.lincolninternational.com/technology)