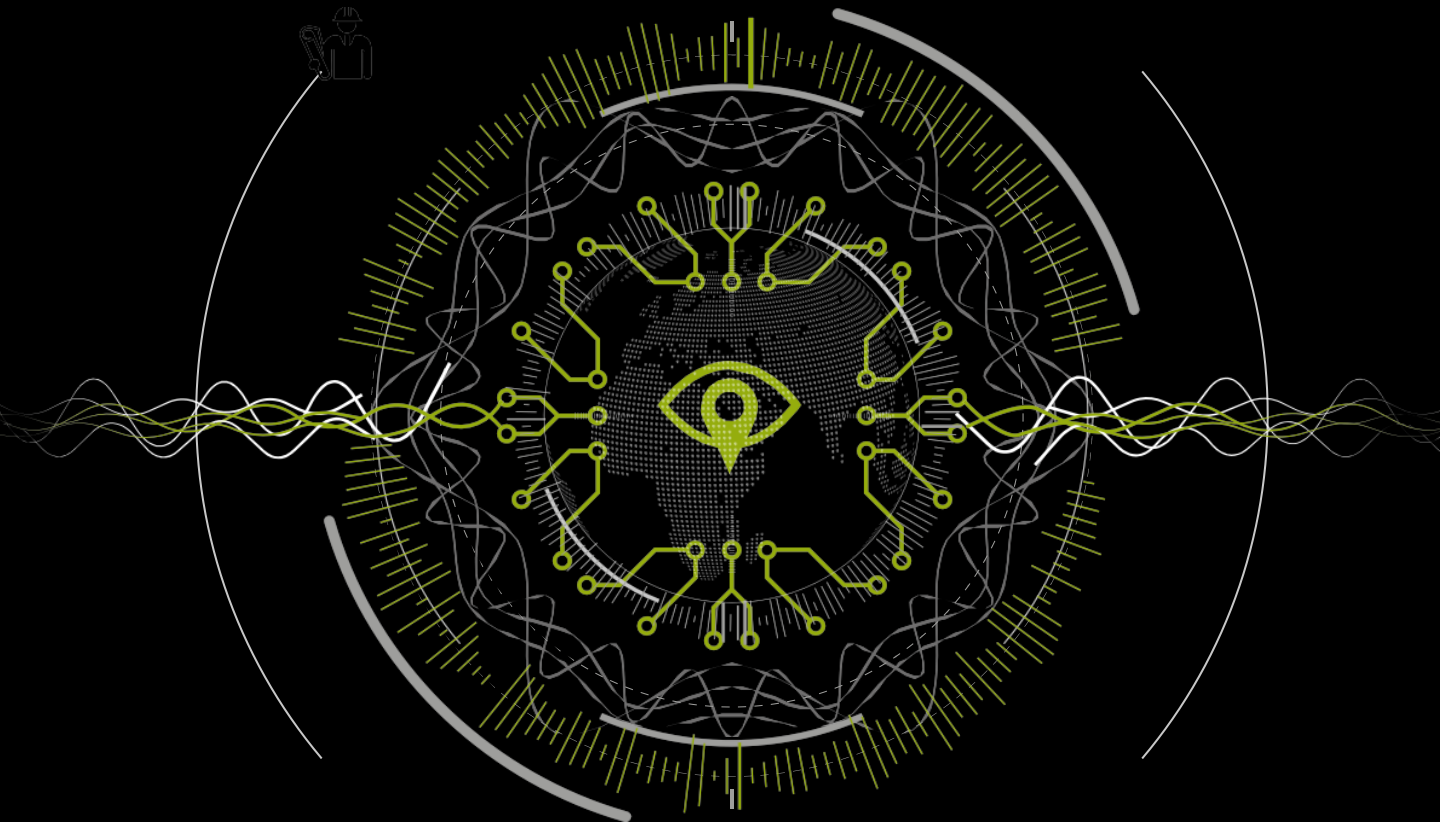


The Cybersecurity Global M&A Report **Q1 2019**

Market trends and key transactional insights for
owners of technology and consulting firms



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Cybersecurity global M&A

Rising cybersecurity concerns in an environment of rapid digital adoption

The global cybersecurity market is expected to grow from circa \$150bn in 2018 to \$250bn by 2023, representing a CAGR of 10.2%, according to data from MarketsandMarkets. Rapid digital transformation of businesses across industries has opened new vulnerabilities with the continued shift to new cloud-based systems, as well as the rising adoption of mobile devices, social media platforms and advanced data analytics tools. Some new technologies such as artificial intelligence, machine learning and behavioral analytics are also being considered to protect against, identify and block cyber-attacks. However, the overall risk of cyber-threats is expected to rise with the proliferation of data.

The elevated volume and intensity of cyber-attacks is impacting organizations of various sizes. As we go to press, high-profile attacks have even impacted customers at some of the major IT services giants highlighting the risks of supply chain attacks and vulnerabilities from third-party vendors. The potential cost of an attack due to the lack of appropriate safeguards could rise further with new and upcoming regulations – according to the NCSL at least 35 US states, D.C. and Puerto Rico have introduced or considered over 265 bills or resolutions related to cybersecurity in 2018.

M&A deal volumes and capital raises for FY 2017 to Q1 2019



Regional breakdown of M&A deal volumes and capital raises in FY 2018



North America	Europe	Asia-Pacific (incl. Australia & NZ)	Rest of the World
445 deals	132 deals	73 deals	62 deals
\$6,393m capital raised	\$817m capital raised	\$555m capital raised	\$484m capital raised

Source: M&A data through this report relies on third party data, see page 11 for more information.

Strong investment activity in a tight talent market

Quarterly market data provides an indicative view of current investment trends, but it should be noted that we typically observe large changes in quarterly data which are not always reflective of long-term trends. In Q1 2019, capital raised for investments in the cybersecurity space remained well above long-term averages. Deal flow dipped slightly, but was broadly in line with recent quarterly volumes.

Notable recent strategic acquisitions include:

- **BlackBerry's** completed purchase of **Cylance**, an artificial intelligence and cybersecurity company acquired for \$1.4bn;
- **CACI's** acquisition of **LGS Innovations** and **Mastodon Design** for \$750m and \$225m respectively, increasing their capabilities in the US cyber intelligence sector;
- **Orange's** purchase of UK-based cybersecurity services provider **SecureData** and its consulting business **SensePost**;
- **SAIC's** acquisition of **Engility**, creating a \$6.5bn revenue government contractor in the US with strong capabilities in cybersecurity for the defense sector; and
- **Thales' acquisition** of Dutch digital identity and security business **Gemalto** for €4.8bn. The deal was agreed to at the end of 2017 and closed in April 2019.

The rising demand for cybersecurity consulting and software solutions from cash-rich strategic buyers is positioned against a backdrop of acute shortages of cybersecurity professionals. This has helped to sustain strong activity and premium valuations across the industry. We found that buyers attributed material value to acquisition targets with leverageable and unique intellectual property (IP), as well as managed services solutions.

Cash-rich private equity attracted by strong industry drivers

Capital raises and deal activity is also being supported by strong demand from private equity firms bidding on the potential for stellar returns in the space. We are observing high levels of dry powder and robust fundraising among private equity investors. Although interest rates are gradually rising, they remain historically low. This is maintaining pressure on both strategic and financial buyers to put their cash to work on new investments at robust valuations.

Notable recent private equity deals include:

- **Blackstone** and **KKR's** exit of their investment in **Cylance** to **BlackBerry**;
- **BlackRock** and **Pamplona's** acquisition of **PhishMe (nka Cofense)**, a company that trains employees to avoid phishing scams. The deal was valued at \$400m;
- **KKR's** sizable minority investment in **KnowBe4**, a major provider of security awareness training and a simulated phishing platform, which valued the business at more than \$800m; and
- **Madison Dearborn Partners** and **CoVant Management's** exit of **LGS Innovations** to **CACI**; and
- **Thoma Bravo's** acquisition of **Imperva**, a provider of cybersecurity solutions to protect systems on-premise and in the cloud, in a deal which was valued at \$2.1bn. The investment firm also acquired **Veracode**, a provider in next-generation application security testing, which was purchased from **Broadcom** for \$950m.

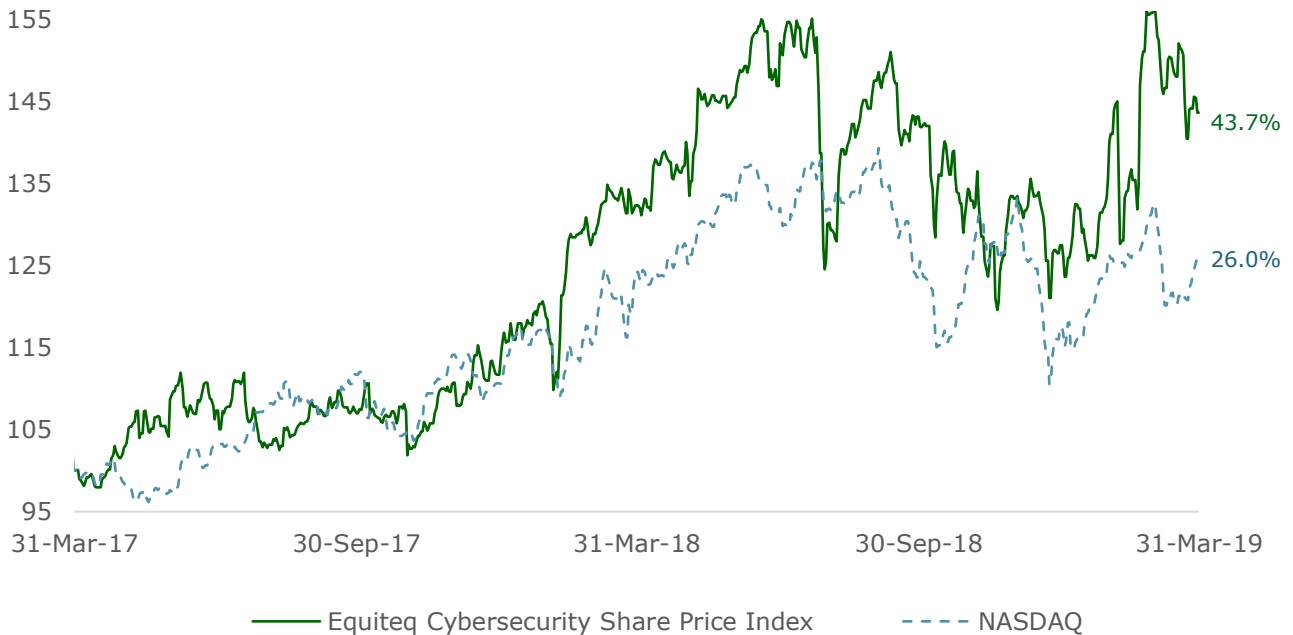
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The Equiteq Cybersecurity Share Price Index outperformed the NASDAQ

In the first quarter of 2019, the share prices of listed technology players rose strongly. This growth contrasted with broader equity market volatility through the second half of 2018, which was a period of elevated investor uncertainty.

Listed cybersecurity players have experienced recent robust share price growth supported by strong recent performance from the likes of Proofpoint, CyberArk and OneSpan. The Equiteq Cybersecurity Share Price Index rose 13% in the first quarter of 2019 and achieved gains of just under 44% over a two year period, while the NASDAQ rose by 26%.

Share Price Performance (Q2 2017 – Q1 2019) ¹



Note 1: The indices are based to 100 at 31 March 2017. On page 12 we discuss the NASDAQ index as a benchmark for comparison to the Equiteq Cybersecurity Share Price Index.


Source: S&P Capital IQ

Positive outlook for industry growth and investment

The market outlook remains robust as investors continue to demonstrate strong interest in cybersecurity businesses. We are interested to see how cybersecurity solutions evolve with the increasing adoption of new disruptive technologies like advanced machine learning and smart connected systems. We will also be monitoring how the market responds to new regulations driven by expected fresh high-profile costly security breaches in both the private and public sector.




If you would like to discuss your current strategic objectives as a business owner or acquisition strategy as an acquirer, please get in touch.

Selected M&A transactions

Announced date	Target	Target's service focus	Buyer	Deal size
Mar-19	Auriga Consulting 	Cybersecurity and monitoring services	Cyberfort Group 	-
Mar-19	BluVector 	Cyber-threat detection and hunting platform	Comcast 	-
Mar-19	NGINX 	Open-source technology business offering security solutions	F5 Networks 	\$670m
Mar-19	WhiteHat Security 	Dynamic application security testing and SaaS platform	NTT Security 	-
Feb-19	Cygn Labs 	Provides compliance solutions that mitigate data security threats	N3K 	-
Feb-19	Green Bit 	Automated fingerprint identification system solutions	Gemalto 	-
Feb-19	Luminate Security 	Operates a SaaS security platform	Symantec 	-
Feb-19	nCipher Security 	Develops cryptographic and security solutions	Entrust Datacard 	-
Feb-19	Onevinn 	Microsoft cloud security services and solutions	Haven Cyber Technologies 	-
Feb-19	SecureData 	Cybersecurity services provider	Orange 	-
Feb-19	Webroot 	Cloud-based internet threat detection solutions	Carbonite 	\$619m
Jan-19	AppRiver 	Cloud-based email and cybersecurity solutions	Zix 	\$275m
Jan-19	DarkBytes 	Develops a unified endpoint protection platform	Sophos 	-
Jan-19	LGS Innovations 	Custom and commercial communications	CACI 	\$750m





























Source: M&A data relies on third party data, see page 11 for more information.

Selected M&A transactions (Cont'd)

Announced date	Target	Target's service focus	Buyer	Deal size
Jan-19	Mastodon Design 	Electronic warfare and cyber operations products	CACI 	\$225m
Jan-19	SLAIT Consulting 	Cybersecurity and data center solutions	ePlus 	\$51m
Nov-18	Appthority 	Mobile threat protection solutions	Symantec 	-
Nov-18	Cylance 	Antivirus and endpoint protection solutions	BlackBerry 	\$1,400m
Nov-18	Javelin Networks 	Cybersecurity platforms based on software defined networking	Symantec 	-
Nov-18	Protected Networks 	Access rights management solutions	SolarWinds 	-
Nov-18	Veracode 	Next generation application security testing	Thoma Bravo 	\$950m
Oct-18	Imperva 	Cybersecurity solutions on-premises and in the cloud	Thoma Bravo 	\$2,119m
Sep-18	Engility 	Government services with expertise in cybersecurity for defense sector	SAIC 	\$2,490m
Jun-18	Leidos [Cyber division] 	Commercial cybersecurity division	Capgemini 	-
Feb-18	PhishMe [nka Cofense] 	Human-driven phishing defense solutions	BlackRock, Pamplona Capital 	\$400m
Jan-18	ACA Compliance Group 	Regulatory compliance solutions and cybersecurity	Starr Investment Holdings 	-
Jan-18	Cyberinc [IAM business] 	Identity and access management solutions	KPMG 	-





















Source: M&A data relies on third party data, see page 11 for more information.

Selected capital raises

Announced date	Target		Target's service focus	Investor(s)		Investment size
Mar-19	Cloudflare		Web performance and security	Franklin Templeton		\$150m
Mar-19	CyberX		IIoT and industrial control system security	Inven Capital Qualcomm Ventures		\$18m
Mar-19	Cymulate		Breach and attack simulation platform	Dell Technologies Capital, Vertex Ventures		\$7.5m
Mar-19	NS8		Online fraud protection platform	Edison Partners		\$26m
Mar-19	Sev1Tech		Enterprise IT, cyber security and program management support services	DFW Capital Partners		-
Feb-19	Anitian		Cloud security and compliance automation	ForgePoint Capital		\$11m
Feb-19	Armorblox		Enterprise security platform	A Capital		\$17m
Feb-19	Axonius		Cybersecurity asset management platform	Bessemer Venture Partners		\$13m
Feb-19	Bishop Fox		Penetration testing and cybersecurity consulting	ForgePoint Capital		\$25m
Feb-19	Cequence Security		Automated solutions to protect web, mobile, and API application services	Dell Technologies Capital		\$17m
Feb-19	CipherTrace		Blockchain security	Aspect Ventures		\$15m
Feb-19	CmdWatch Security		Security platform that provides control and visibility into production workloads	Google Ventures		\$15m
Feb-19	Contrast Security		Enabling software applications to protect against cyberattacks	Warburg Pincus		\$65m
Feb-19	Elevate Security		People-centric security platform	Defy Partners		\$8m

Source: Investment data relies on third party data, see page 11 for more information. Named investors may exclude some co-investors.

Selected capital raises (Cont'd)

Announced date	Target	Target's service focus	Investor(s)	Investment size
Feb-19	K2 Cyber Security 	Cloud workload protection platform	GreatPoint Ventures, Embark Ventures 	\$6m
Feb-19	Kivu Consulting 	Incident response, risk management, and cyber forensic services	Bow River Capital 	-
Feb-19	KnowBe4 	Security awareness training and simulated phishing platform	KKR 	\$50m
Feb-19	Mocana 	Mission-critical Internet of Things security solutions	Sway Ventures 	\$15m
Feb-19	Netography 	Autonomous network security platform	Andreessen Horowitz 	\$2.6m
Feb-19	Obsidian Security 	Intelligent identity protection for the hybrid enterprise	Wing Venture Capital 	\$20m
Feb-19	PerimeterX 	Prevents automated cyber attacks by detecting malicious web behavior	Scale Venture Partners 	\$43m
Feb-19	Socure 	Digital identity verification solutions	Scale Venture Partners 	\$30m
Feb-19	SpyCloud 	Account takeover prevention platform	M12 	\$21m
Feb-19	Stellar Cyber 	Virtual software to detect security breaches	Valley Capital Partners 	\$13.2m
Feb-19	ZEDEDA 	Control, visibility and security of edge applications	Energize Ventures, Lux Capital 	\$16m
Jan-19	Keyfactor 	Secure digital identity management solutions	Insight Venture Partners 	\$77m
Jan-19	Ionic Security 	Data protection platform	JPMorgan 	\$40m
Jan-19	OneLogin 	Unified access management	Greenspring Associates, Silver Lake Waterman 	\$100m
Jan-19	Tessian 	Next-generation email security platform	Sequoia Capital 	\$42m





Source: Investment data relies on third party data, see page 11 for more information. Named investors may exclude some co-investors.

About Equiteq

Equiteq is a global leader in providing strategic advisory and merger & acquisition services to owners of IP-rich technology and services businesses

There are unique challenges to value growth and equity realization for shareholders and investors in the knowledge economy. Equiteq helps owners transform equity value and then realize maximum value through global sale processes.

Selected recent Equiteq transactions:

 <p>Data Analytics Consulting Sold to</p>  <p>Advised on the sale</p>	 <p>Business & Technology Consulting Sold to</p>  <p>Advised on the sale</p>	 <p>Data Analytics Consulting Sold to</p>  <p>Advised on the sale</p>	 <p>Operations Transformation Consulting Merged with</p>  <p>Advised on the merger</p>
 <p>Innovation & Product Design Consulting Sold to</p>  <p>Advised on the sale</p>	 <p>SAP BPC Specialist Sold a majority stake to</p>  <p>Advised on the transaction</p>	 <p>Corporate Strategy Consulting Merged with</p>  <p>Advised on the merger</p>	 <p>Salesforce Consulting Sold to</p>  <p>Advised on the sale</p>
 <p>Microsoft Integration Consulting Joined</p>  <p>Advised on the joining</p>	 <p>Market Research Consulting Merged with</p>  <p>Advised on the merger</p>	 <p>Microsoft Dynamics NAV Partner MBO backed by FPE Capital</p>  <p>Advised on the MBO</p>	 <p>Recruitment Consulting Received investment from</p>  <p>Advised on the investment</p>

Further resources

Join Equiteq Edge, a source of information, advice, and insight to help you prepare for sale and sell your business. Equiteq Edge gives you access to the findings of research conducted among buyers of knowledge-intensive firms from around the world, insight from those who have sold their businesses and other expert M&A advice.

Join Equiteq Edge at equiteq.com/equiteq-edge

Key definitions

For the purposes of this report **cybersecurity M&A** refers to deals involving the acquisition of controlling stakes in businesses offering cybersecurity-related software, consulting or other knowledge-intensive services. In the report, we break down buyers of these businesses into two key groups, defined further below:

Private equity or financial buyers are investment firms investing private capital into businesses, which are typically held and exited after a hold-period.

Strategic or trade or corporate buyers are non-private equity investors that have existing businesses, which will typically make acquisitions that form part of their existing operations.

Equiteq market intelligence & data sources

This report has been compiled by Equiteq's dedicated market intelligence team with unique insights from Ramone Param, the firm's thought leadership director. The report utilizes multiple data sources including proprietary newsfeeds, press releases, various third-party information sources and data services. Additionally, our daily activities in the M&A marketplace with buyers and sellers provide insights into emerging trends and informs our research report's point of view.

It is important to note that market data, including valuation and financial data, are derived from various sources including press releases, company information, S&P Capital IQ and PitchBook information databases, combined with findings from our daily activities in the market with buyers and sellers that we utilize on an anonymized basis. M&A deal volumes (the number of transactions completed) for the latest period being analyzed are estimated based on reported deal volumes and the application of an adjustment factor to account for transactions completed, but not immediately captured in our subscription databases. Due to refinements in data, our analytical methods and market definitions, historic figures may vary between our reports.

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No assurance can be given that investment objectives will be achieved. Certain strategies employed by Equiteq may involve speculative investment practices that involve a substantial degree of risk.

Note 1: The returns of the NASDAQ have been provided in this presentation as appropriate benchmarks for comparison to the Equiteq Cybersecurity Share Price Index. The NASDAQ or National Association of Securities Dealers Automated Quotations represents a benchmark index for U.S. technology stocks. We believe it is relevant to compare the Equiteq Cybersecurity Share Price Index with technology-focused public equities. This index can be viewed as a proxy for the technology market. Notwithstanding the foregoing, there will not necessarily be a correlation between the performance of the Equiteq Cybersecurity Share Price Index, on the one hand, and this index, on the other hand. Investments cannot be made directly in indices and such indices may re-invest dividends and income.

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