

May 2018 Industry snapshot

# SECURITY SOFTWARE

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**JOSEPH SABET**

SECTOR HEAD





**Introduction**

Any software designed to identify, prevent, stop and repair the damage caused by others on a computer or network can be called security software. Security software may be focused on preventing attacks from reaching their target, on limiting the damage attacks can cause if they reach their target and on tracking the damage that has been caused so that it can be repaired. There are several categories in this growing industry:

- Firewalls block unknown packets from entry into a system via the internet and compartmentalizes the threat to mitigate further damage.
- Antivirus scans systems for known threats, usually code implanted into a vulnerable point in a system.
- Antimalware checks systems for new threats and inconsistencies in system behavior and releases fast fixes .
- Bot detection uses site and software algorithms to detect non-human activities.
- Enterprise security protects large networks with up to thousands of connections.
- Endpoint refers to home computer or office protection with installed software on a single computer, network, or server.
- Cloud refers to online database protection with encryption and bot detection to safeguard data.

**M&A Highlights**

- Security software is highly fragmented and larger companies are seeking to become one-stop-shops, via acquisitions, with all-inclusive solutions.
- M&A transactions in cybersecurity total USD 97 billion in 1,101 deals since 2010. Cybersecurity M&A activity in 2018 is on pace to reach record levels again by number of deals.
- Over the last eight quarters strategic and financial buyers have completed USD 43 billion in cybersecurity M&A transactions.
- Q1 2018 was the strongest quarter for deal activity since Q1 2017 with 58 deals surpassing the previous high of 52 set in Q1 2017.
- The average and median enterprise value for cybersecurity transactions since 2010 was USD 222 million and USD 40 million respectively.
- 70% of M&A exits in cybersecurity are below USD 100 million.
- The European General Data Protection Regulation (GDPR), taking effect in May 2018 as the primary law regulating how companies protect EU citizens' personal data, will have major effects on the industry.

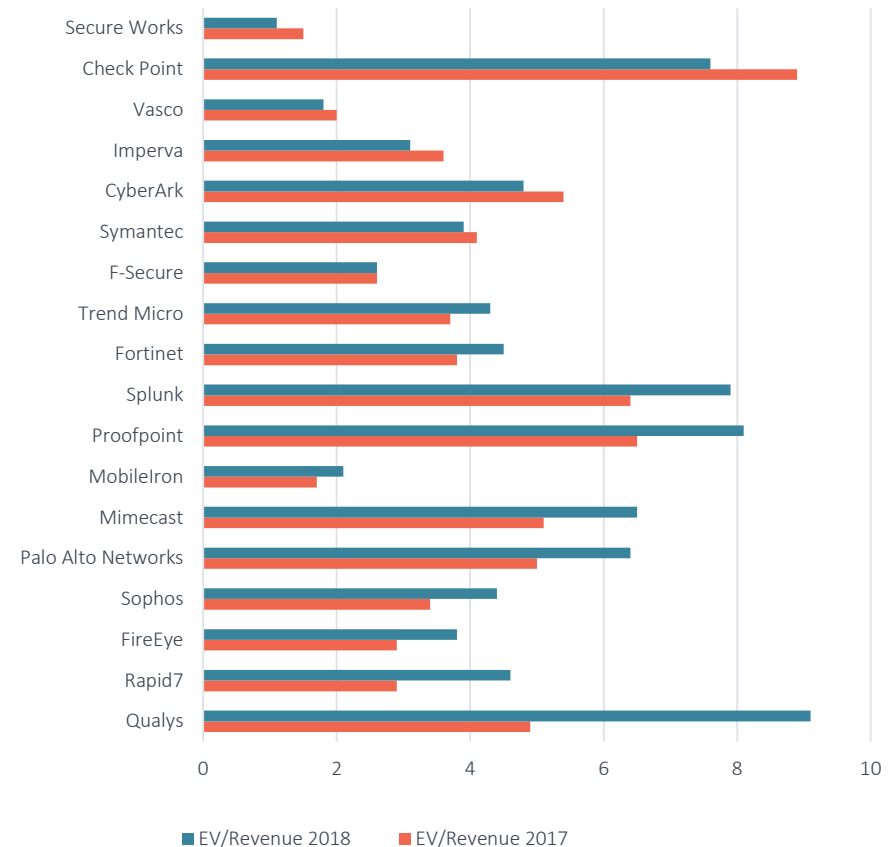
LARGEST CYBERSECURITY COMPANIES	MARKET CAP IN USD MILLION (AS OF MAY 10, 2018)	SALES IN USD MILLION	EV/SALES	EBIT%
	18,977	1,762	6.29x	-9.02%
	15,872	1,855	8.55x	49.82%
	17,869	4,019	5.70x	7.29%
	16,650	1,271	9.25x	-19.60%



## KEY MARKET TRENDS

- All M&A deals in Q1 2018 involved targets that were private companies or assets. This trend is expected to continue.
- Some say the security software space is overfunded and unsustainable.
- Gartner predicts worldwide information security spending will go from USD 86 billion in 2017 to USD 93 billion in 2018.
- The consolidation of suppliers in the enterprise should benefit those suppliers that offer leading technology and multi-product platforms, as companies will want to buy from those that can provide an end-to-end solution.
- With data and applications traveling between a variety of users and devices spanning multiple networks (especially with the adoption of IoT), companies can no longer rely on internal company networks protected by firewalls.
- The shift to cloud-based services and vendor consolidation within the enterprise is a key driver to bolt-on M&A deals to expand product portfolios.
- A growing number of organizations are adopting authentication solutions with the intent of monitoring individuals to gain access of unauthorized data.
- Legacy data migration and new data creation will lead to digital transformation that further expedites security software spending.

## CYBERSECURITY MULTIPLES CONTINUE TO INCREASE



	2017	Q1 2018
Median multiple	3.7x	4.5x (20.4% increase)







CYBERSECURITY M&A TRANSACTIONS WITH DISCLOSED  
TRANSACTION VALUES OVER LAST 8 QUARTERS

	EV (USD BILLION)	LTM REVENUE (USD BILLION)	EV / LTM REVENUE
Mean	342.9	200.5	8.2x
Median	54.7	31.4	4.3x

## NOTABLE FINANCING TRANSACTIONS YTD

DATE	COMPANY	AMOUNT (USD M)
1/03/18	Algosec	36
1/17/18	Anomali	40
1/18/18	Ledger	75
2/09/18	Datavisor	40
2/21/18	Vectra	36
2/22/18	Bugcrowd	26
2/27/18	Qingteng	32
3/08/18	Netsparker	40
3/12/18	Biocatch	30
3/21/18	Sift Science	53

## 2018 SELECTED TRANSACTIONS

DATE	TARGET	Total Value (USD M)	BUYER	DETAILS
2/2018	ThreatMetrix	830	 LexisNexis®	Cash
2/2018	PhishMe (Cofense)	400	 BLACKROCK	Equity
3/2018	Evident	300		Cash
3/2018	Wombat	225		Cash
4/2018	Phantom	350		Cash/Equity
4/2018	Secdo	100		N/A

## MOST FUNDED FIELDS ACROSS ALL STAGES:



Network Security



IoT Security



Mobile Security

Vulnerability & Risk  
Management

SECURITY SOFTWARE  
DEAL SPOTLIGHT

UK



IT SECURITY SOLUTIONS

Flow Communications, a provider of network infrastructure and IT security solutions, received development capital from Maven Capital Partners, one of the UK's leading private equity funds, investing in private SMEs in a range of industry sectors. The Maven investment represents a substantial opportunity for Flow to accelerate its growth plans and sets up a great opportunity for a buy-and-build in the sector. The sale was advised by Clairfield International in UK.

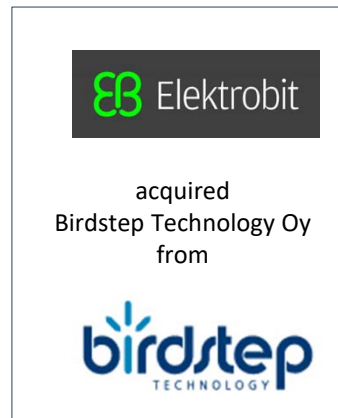
## SELECTED RECENT SECURITY SOFTWARE TRANSACTIONS

US



SECURITY COMPLIANCE SOLUTIONS

Finland/Norway



IT SECURITY

France



REMOTE-MONITORING SOFTWARE

Denmark



SECURITY TESTING SERVICE

Australia/Germany

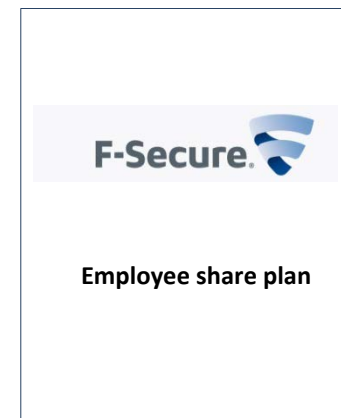


DEFENSE SOFTWARE

Israel

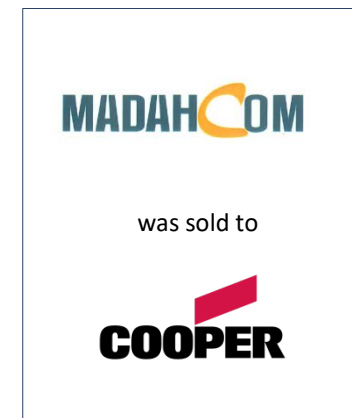
DEFENSE AND HOMELAND  
SECURITY

Finland

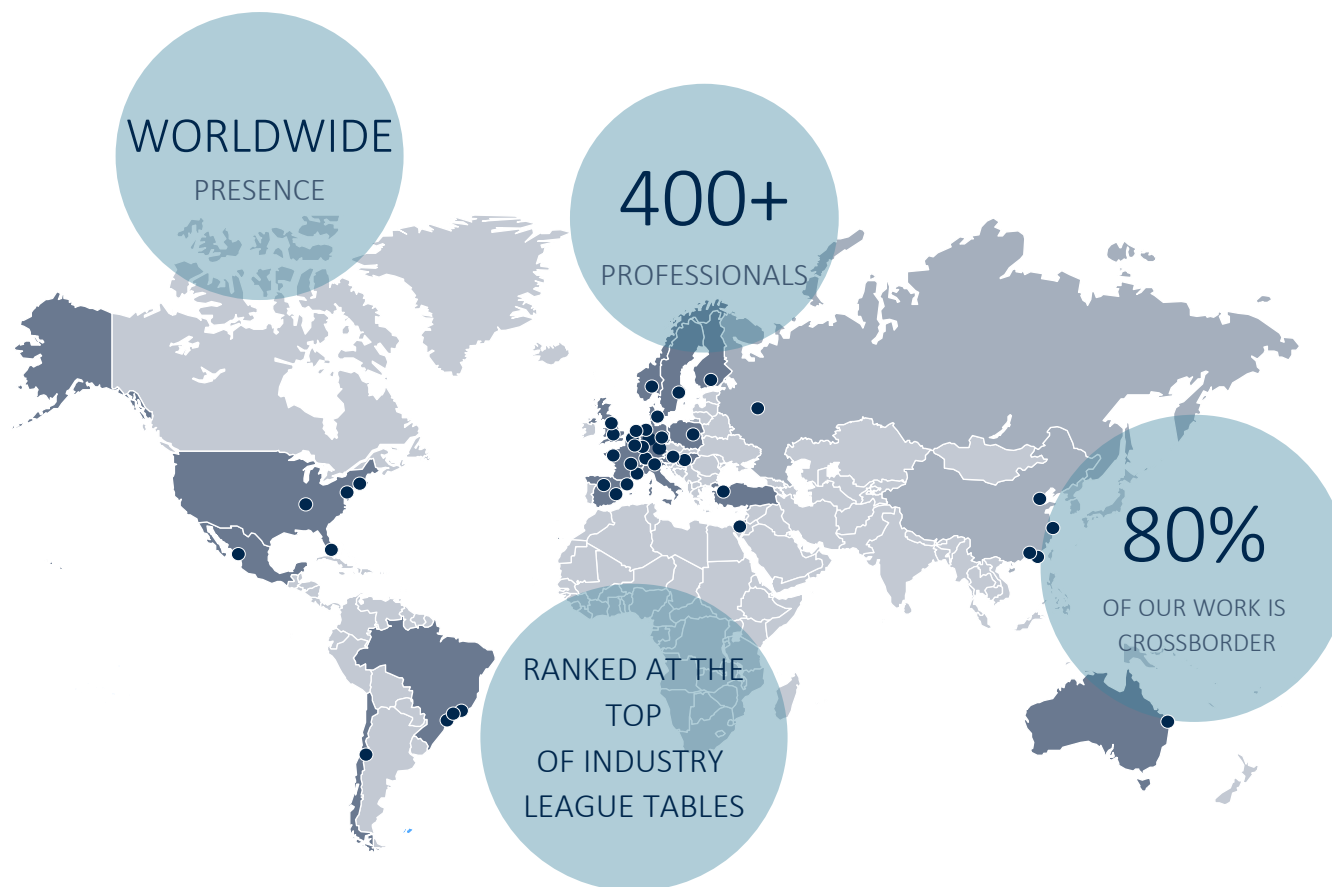


CYBER SECURITY

Israel

SECURE WIRELESS EMERGENCY  
CONTROL

# CLAIRFIELD – A GLOBAL PARTNERSHIP OF M&A SPECIALISTS



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