



Cyber Security – Market Insights

October 2022

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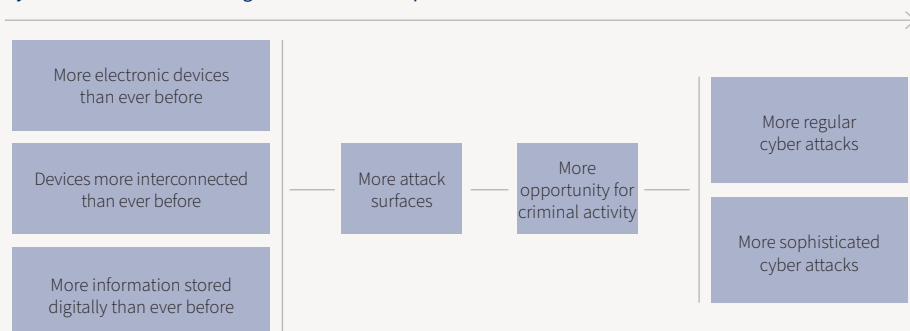
Why Arrowpoint Advisory?



Overview

The cyber security market is growing rapidly driven by more regular and more sophisticated cyber attacks and greater costs - both financial and reputational - associated with cyber attacks

Cyber attacks are increasing in number and sophistication



The costs of successful cyber attacks are higher than ever before



SELECTED HIGH-PROFILE CYBER ATTACKS:

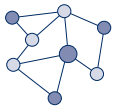


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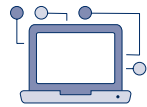
Key Sector Trends

An ever-changing threat landscape is driving continual disruption in the cyber security market



Vendor consolidation

Security products are converging and vendors are consolidating security functions into a single platform



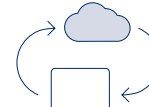
Automated security

Use of AI and machine learning to create persistent automated security environments and automated threat detection and response



MSSP to MDR

The cyber security market is migrating beyond monitoring to an outsourced SOC model with incident response and forensic analysis capabilities



XaaS

For SMEs, migrating workloads and infrastructure to third-party cloud environments is likely to enhance security



Cloud security

As shown by Alphabet's acquisition of Mandiant, cloud providers are increasingly looking to provide security services



An evolving market

Increasing attack surfaces and changing attack vectors mean that continued innovation is required in the cyber security market



Zero trust

Security models are starting to restrict access strictly to those users who need it, granting access to users based on identity, time and device



IoT

Or the IoVT (Internet of Vulnerable Things) – the expanding IoT is creating more attack surfaces for cyber criminals to target



Skill shortage

Difficulty in finding well-trained cyber security professionals has created a highly competitive labour market



Remote working

Covid forced many enterprises to implement unplanned cloud migrations to the home, which is a less secure cyber environment



Insider threats

People remain the weak point in the cyber estate – the 'human risk' is being increased through the use of multiple devices and the blurring of corporate and personal devices

The Cyber Security Market

The cyber security value chain is converging, with providers looking to be a one-stop shop for the ultimate end user

Cyber security value chain

MANUFACTURING	DISTRIBUTION	SERVICES	END USERS
Software developers	Wholesalers	MSSP / MDR	Government
Hardware manufacturers	Distributors	VARs	Aerospace and defence
	Retailers	Integrators	Financial services
		Consultants	IT and telecoms
			Healthcare
			Retail
			Manufacturing
			Energy and utilities
			Travel and transportation
			Other



Cyber Security Services – Market Landscape

Cyber security services

Cyber security service providers are moving away from ad hoc consulting and towards a more complete managed services solution

SECURITY OPERATIONS CENTRE (SOC)



THREAT INTELLIGENCE



MANAGED SERVICES

PEN TESTING AND VULNERABILITY ASSESSMENTS



SIMULATED ATTACK AND RESPONSE



INCIDENT RESPONSE



PROFESSIONAL SERVICES

Cyber Security Products – Market Landscape

Cyber security products

Cyber security product businesses are underpinned by rapidly scalable software – this means that successful companies quickly outgrow the mid-market

NETWORK AND INFRASTRUCTURE SECURITY

- Advanced threat protection
- Network access control
- Software-defined networking
- DDoS protection
- DNS security
- Network firewall
- ICS and operational technology
- Network analysis and forensics



ENDPOINT SECURITY

- Endpoint protection
- Endpoint detection and response



Not considered here: Messaging security, IoT, identity and access management, risk and compliance, fraud and transaction security

APPLICATION / WEB / MOBILE / CLOUD / DATA SECURITY

- Application security testing
- Web application firewall
- Web security
- Mobile security
- Cloud security
- Encryption
- Data loss prevention
- Data privacy



SIEM AND SECURITY ANALYTICS

- Security Information and Event Management (SIEM)
- Security incident response
- Security analytics



Key Value Drivers in the Cyber Security Services Market

What does 'good' look like?

An ever-changing threat landscape is driving continual disruption in the cyber security market. Key characteristics contributing to enterprise values include the following:



High-value services

Red teaming not just penetration testing; managed detection and response not just managed services



End markets

Strong exposure to blue-chip clients in systemically important and rapidly growing end markets, such as financial institutions, telecoms, public sector and government, energy, etc.



Recurring revenue

Subscription-style, cyber-security-as-a-service revenues rather than one-off consulting projects. Recurring revenue drives value by creating predictability, a stable base for growth and reducing customer acquisition costs



Forward visibility

Orderbook of sticky, long-term contracts with predictable revenue that extends beyond a 3-6 month forward period and a pipeline of prospects with an empirical conversion prediction



Technology-enabled

Use of technology to drive operational productivity and overcome labour intensity to enable easier rapid scaling



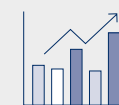
Talent

High-quality employee base with low churn and a track record of successfully recruiting new talent in the notoriously challenging cyber security labour market



Scale and profitability

Platform of scale with a track record of converting sustainable revenue growth into profits. Scale can be achieved more quickly with a recurring revenue base and a technology-enabled business model



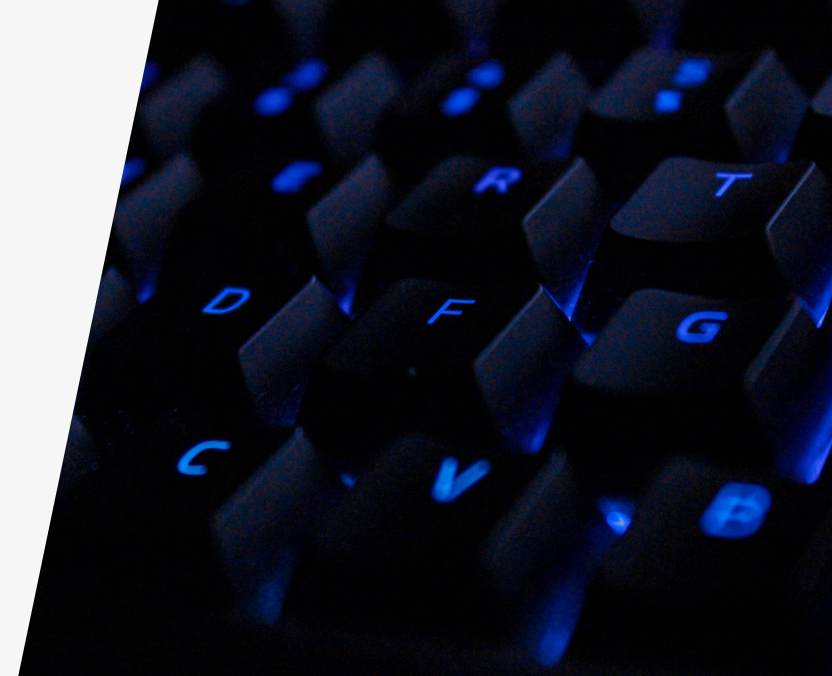
Counter-cyclical

Resilient earnings underpinned by non-discretionary services that will not be "turned off" during a downturn as client become cost conscious



Recent Learnings in the Cyber Security Services Market

The nature of the cyber security market creates hurdles in trying to successfully execute a transaction



Availability of information

The cyber security market is ever changing and remains fragmented – targets are typically small with limited data capture and relatively unsophisticated



Commercial sensitivity

Sensitive information is intrinsic to the cyber security market and management's reluctance or inability to share it complicates the due diligence process



Lofty value expectations

Well-publicised cyber security transactions and listed benchmarks have inflated price expectations



Relatively uninformed initial offers

Limited information sharing means initial offers are less informed and less deliverable – this creates transaction risk and lengthens the due diligence process and distraction to management teams



Price renegotiation

Price negotiation seems inevitable – there is very little room for manoeuvre between the lowest value acceptable to sellers and the higher price a buyer is willing to pay



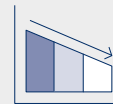
Key person risk

The majority of the companies in the cyber security market have less than 50 employees and are reliant on an owner-manager for client acquisition and strategic oversight



Ability to scale

Many cyber security companies want to position themselves as managed solutions providers with recurring revenues, but some remain labour intensive with less scalable models



Trading performance vs. forecasts

The high-growth nature of the cyber security market has been extrapolated forward and often targets fail to meet ambitious forecasts

M&A Market Overview

Selected historical precedent transactions

M&A activity in the cyber security market has ramped up as the financial and reputational cost of cyber attacks have increased



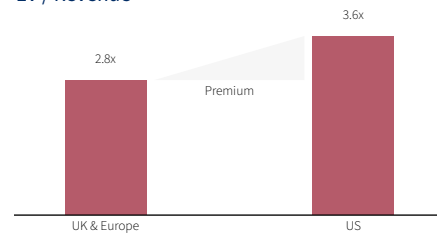
Valuation Insights

Global trends

Value in the cyber security M&A market is driven by size, location, offering and buyer type

VALUE – BY GEOGRAPHY

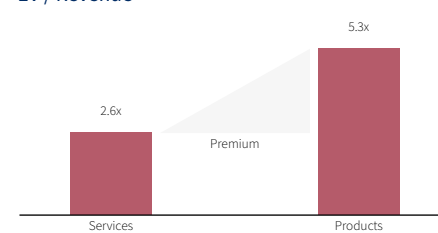
EV / Revenue



Insight: The US market is further along maturity curve and more confident paying higher prices for cyber security businesses

VALUE – BY OFFERING

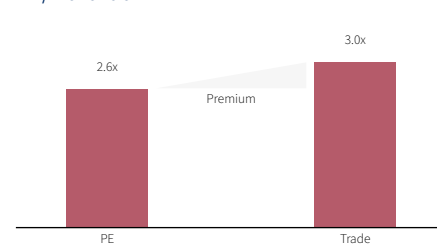
EV / Revenue



Insight: Cyber security product businesses are more attractive due to their inherent scalability and the stickiness of their customer base

VALUE – BY COUNTERPARTY

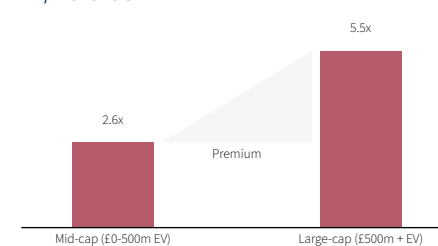
EV / Revenue



Insight: Strategic trade buyers with a need to enhance their cyber security proposition are still paying strategic premia and giving value for synergies

VALUE – BY SCALE

EV / Revenue

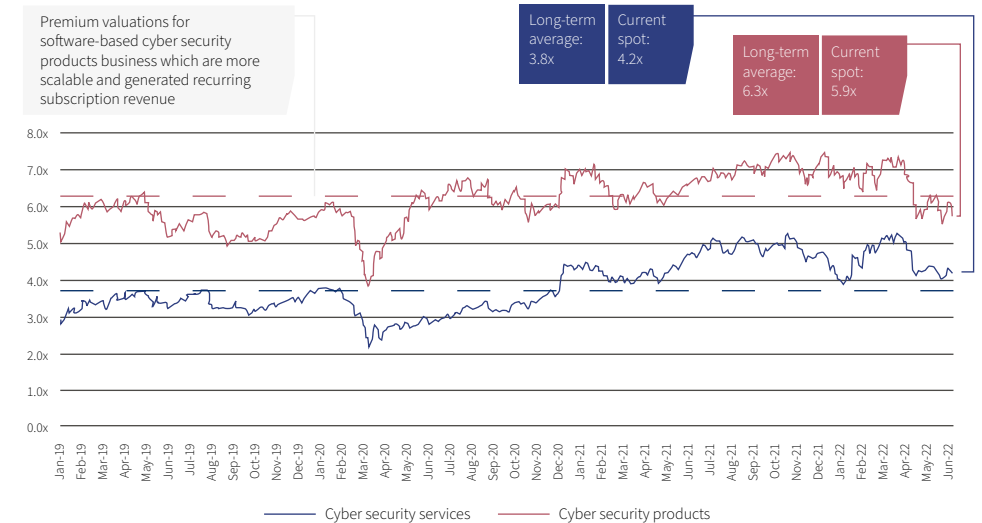


Insight: In the cyber security market bigger is better with larger companies commanding premium valuations. High-growth companies are also inherently more valuable

Through-the-cycle

Listed companies show the value premium that is achieved by the more resilient and more scalable earnings models associated with cyber security products

EV / Revenue



PEERS – CYBER SECURITY SERVICES



PEERS – CYBER SECURITY PRODUCTS



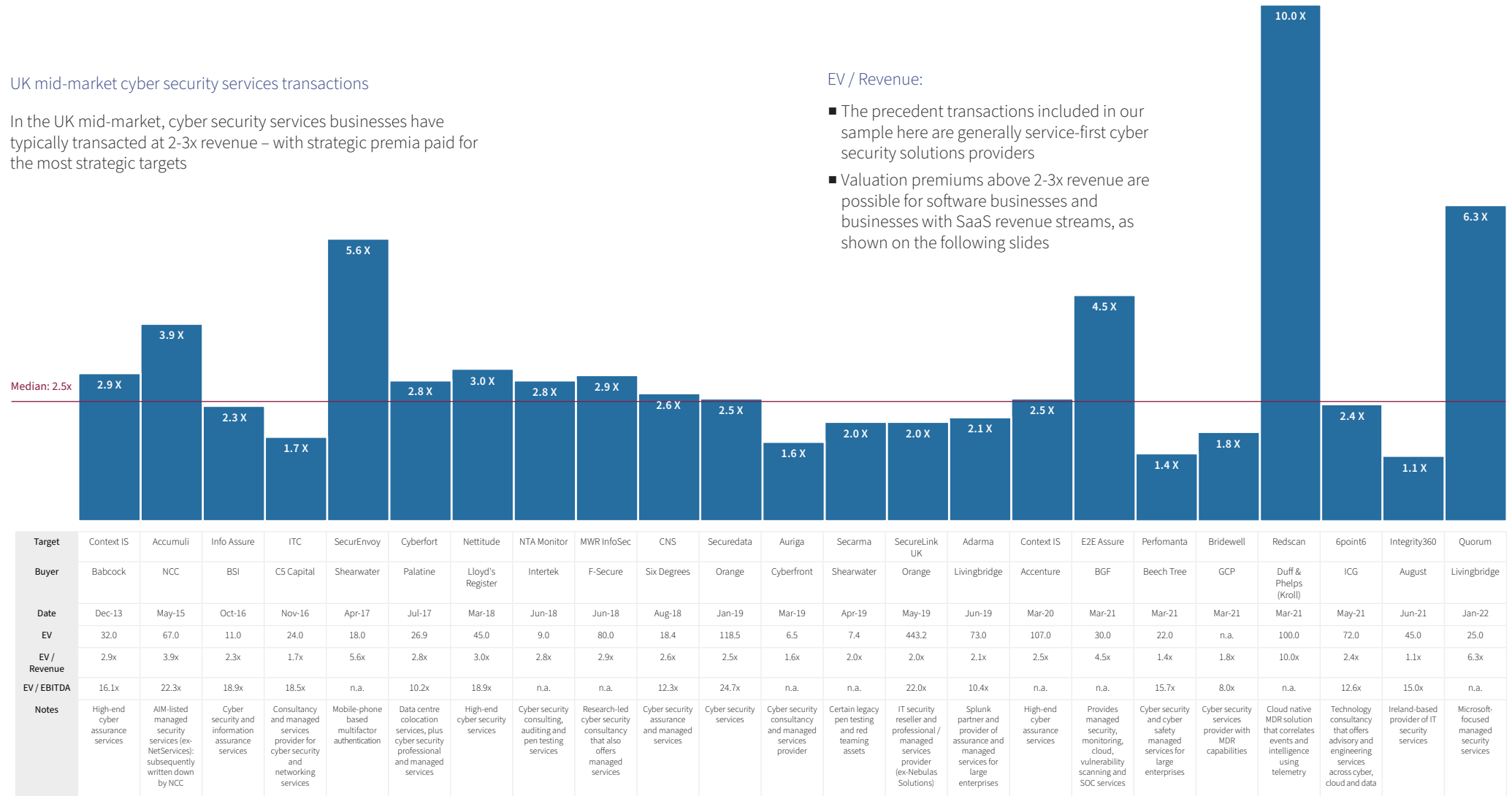
Precedent Transactions

UK mid-market cyber security services transactions

In the UK mid-market, cyber security services businesses have typically transacted at 2-3x revenue – with strategic premia paid for the most strategic targets

EV / Revenue:

- The precedent transactions included in our sample here are generally service-first cyber security solutions providers
- Valuation premiums above 2-3x revenue are possible for software businesses and businesses with SaaS revenue streams, as shown on the following slides



Strategic Acquirers

Selected examples by the market

Strategic trade buyers have converged on the cyber security market from a range of end markets where cyber security is a must-have capability

CYBER SECURITY NATIVES



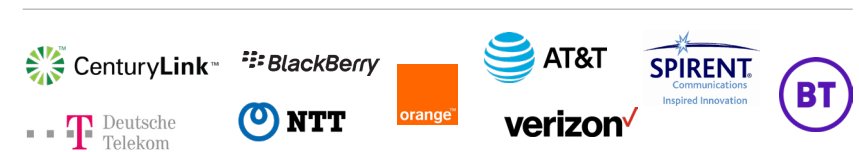
DEFENCE



TECHNOLOGY CONSULTANTS



TELECOMS



TICC

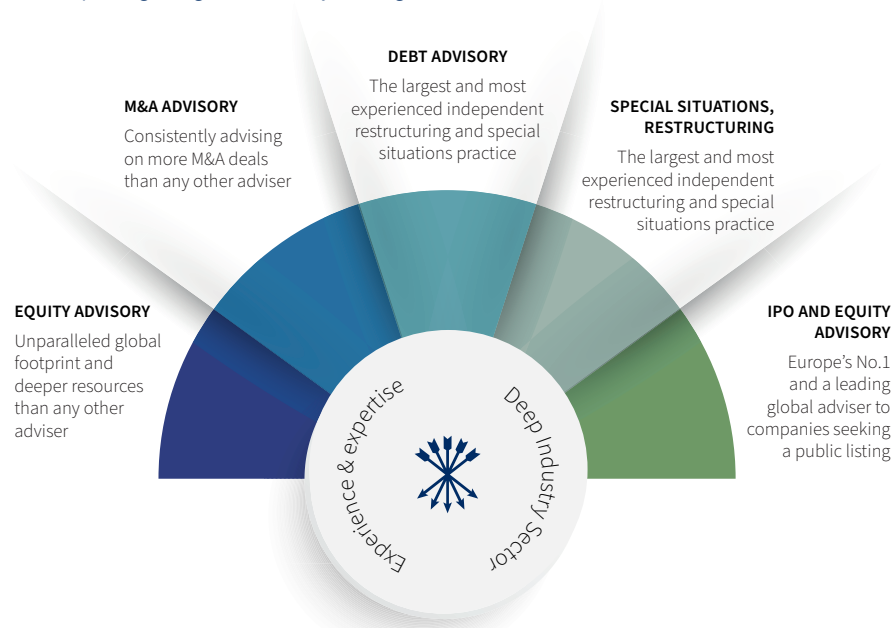


Why Arrowpoint Advisory

Leading global M&A adviser

We are Rothschild & Co's dedicated UK mid-market team and the only mid-market adviser with global reach and sector expertise of this scale and quality

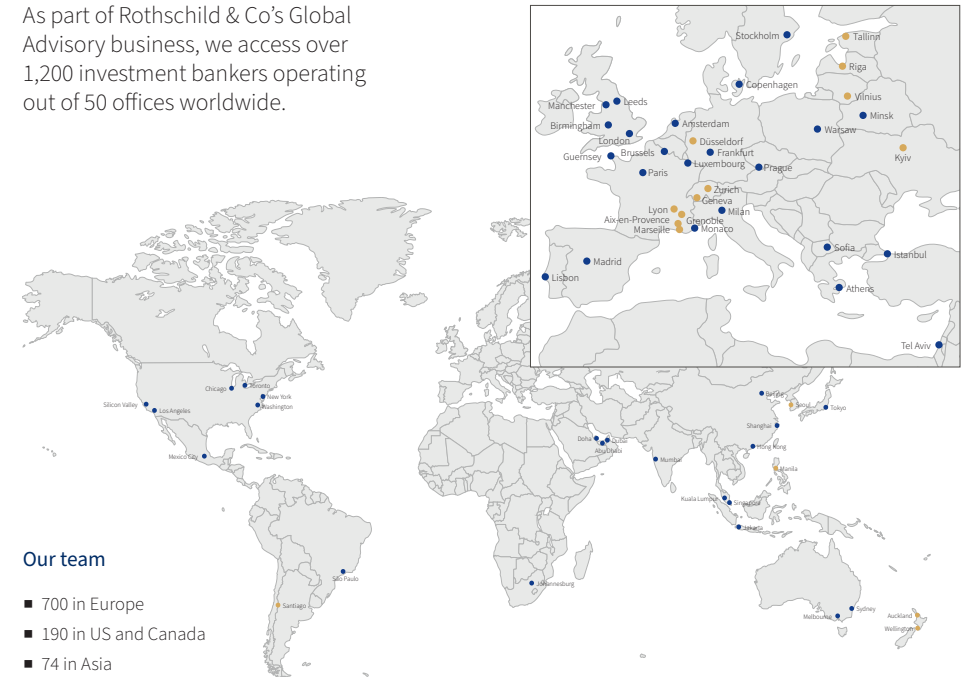
All-encompassing, integrated advisory offering



A global investment bank with a difference

ADVICE ONLY	GLOBAL SCALE	SECTOR & MARKET KNOWLEDGE
<ul style="list-style-type: none"> ■ All of our revenue comes from our advice to clients ■ Family-controlled business: our advice is independent and unbiased ■ A long-term view, working with clients across the deal size spectrum 	<ul style="list-style-type: none"> ■ Our network of bankers is based in 50 offices across over 40 countries, pooling a wealth of local knowledge ■ We advise on more transactions across both M&A and Financing than anybody in our core markets ■ Unique insight that helps us advise our clients 	<ul style="list-style-type: none"> ■ Our of sector specialists provides our clients with a global picture of industry dynamics and the current strategies of their participants ■ Deeper insight into equity and debt capital markets than other advisers

As part of Rothschild & Co's Global Advisory business, we access over 1,200 investment bankers operating out of 50 offices worldwide.



Our team

- 700 in Europe
- 190 in US and Canada
- 74 in Asia
- 35 in Australia
- 35 in Latin America
- 30 in Africa and Middle East

- Rothschild & Co offices
- Joint ventures or representative offices

1200+ advisers
















50+ offices

40+ countries

Our Cyber Security Experience

Our selected credentials

Cyber security services

<p>Sagard</p>  <p>Acquisition of a minority stake in I-Tracing</p> <p>Current</p>	<p>Onecom</p>  <p>Acquisition of the Retail and Partner divisions of 9 Group Limited</p> <p>2021</p>	<p>Abénex</p>  <p>Acquisition of Squad from Apax Partners</p> <p>2021</p>	<p>Andera Acto</p>  <p>Minority investment in Synacktiv</p> <p>2021</p>	<p>Senior management team of M247</p>  <p>Company's reinvestment from Livingbridge and Ares</p> <p>2020</p>
<p>ECI</p>  <p>Investment in CSL Group</p> <p>2020</p>	<p>Sodifrance</p>  <p>Disposal to Sopra Steria</p> <p>2020</p>	<p>Nettitude</p>  <p>Sale to Lloyd's Register</p> <p>2019</p>	<p>Atos</p>  <p>€1.5bn monetization of Worldline shares through a combination of transactions</p> <p>2019</p>	<p>Cyberbit</p>  <p>US\$30m growth capital raise</p> <p>2018</p>
<p>Argus Cyber Security</p>  <p>Sale to Continental</p> <p>2017</p>	<p>Info-Assure</p>  <p>Sale to BSI</p> <p>2016</p>	<p>Context IS</p>  <p>Sale to Babcock</p> <p>2013</p>	<p>Amtivo</p>  <p>Adviser to Amtivo shareholders on the sale of the business to Charterhouse</p> <p>2021</p>	<p>LRQA</p>  <p>Adviser to Lloyd's Register on the sale of LRQA to Goldman Sachs Asset Management</p> <p>2021</p>

Our Cyber Security Experience

Cyber security products

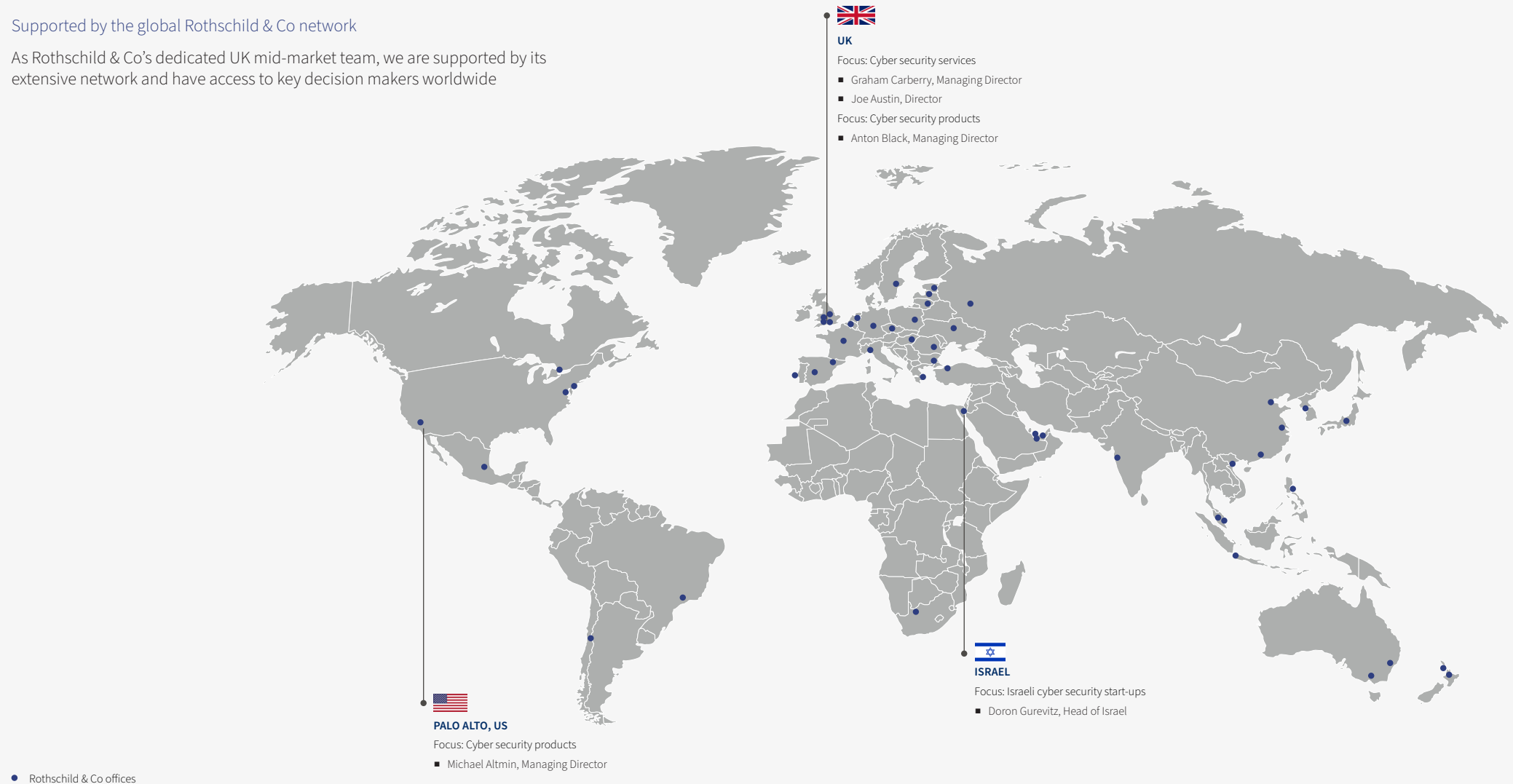
<p>enSilo</p> <hr/> <p>FORTINET ENSILO</p> <p>Sale to Fortinet</p> <p>2019</p>	<p>Sophos Group</p> <hr/> <p>SOPHOS</p> <p>Debt advice on its US\$305m RCF</p> <p>2019</p>
<p>Symphony Communication Services</p> <hr/> <p>SYMPHONY</p> <p>US\$166m fundraising at a US\$1.2bn pre-money valuation</p> <p>2019</p>	<p>Avast and its Shareholders</p> <hr/> <p>avast</p> <p>US\$816m IPO (\$3.4bn market capitalisation) on the London Stock Exchange</p> <p>2018</p>
<p>Intel</p> <hr/> <p>intel mobileye</p> <p>US\$15.3bn Acquisition of Mobileye</p> <p>2017</p>	<p>Hewlett-Packard</p> <hr/> <p>hp TREND MICRO</p> <p>US\$300m sale of HP TippingPoint to Trend Micro</p> <p>2015</p>



Our Cyber Security Team

Supported by the global Rothschild & Co network

As Rothschild & Co's dedicated UK mid-market team, we are supported by its extensive network and have access to key decision makers worldwide





We would welcome the opportunity to discuss your strategic goals and requirements in confidence.

Whether you are looking to sell, acquire, raise or manage debt, or manage a special situation we can help your business to succeed.



GRAHAM CARBERRY
MANAGING DIRECTOR

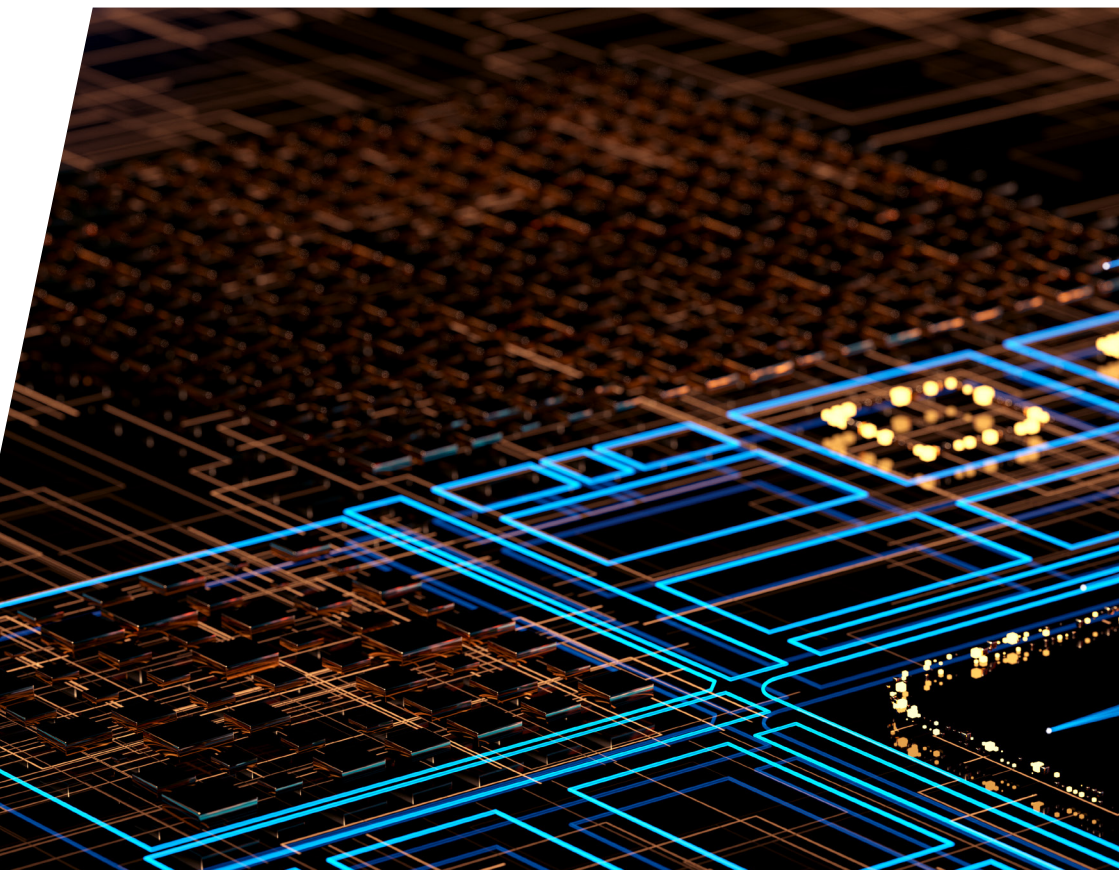
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