

CYBERSECURITY

# Quarterly Report

Q2 2023



## INSIDE THIS ISSUE

- Q2 2023 cybersecurity deal volume, while flat from last quarter and down from Q2 of last year, is displaying green shoots as the pipeline of M&A and investment processes rapidly expands, and market checks indicate clear eagerness among investors and strategics to deploy capital
- Public cyber valuations have recovered substantially YTD alongside NASDAQ, as the majority of cyber publics continue exceeding street revenue and earnings-per-share expectations
- Next-year growth rate plus EBITDA margin performance (Rule-of-40) continues to correlate more highly with valuations than growth alone for public cyber vendors, reflecting the end of the “growth at all cost” mindset
- AI is rapidly infusing into cyber vendor roadmaps and marketing plans, and is expected to supercharge the arms race between cybercriminals and vendors and drive spending growth
- Investors continue to place a premium on innovation, technical dexterity and ability to simplify the complex and unknown, resulting in strong secular tailwinds and aggressive growth in cyber investment and dealmaking

# Q2 2023 Cybersecurity Deal Activity: Down but Green Shoots and Activity Resilience Confirm Sector Health

## OVERVIEW

- Consecutive quarterly sector mergers and acquisitions (M&A) deal activity rose in Q2 2023 to 54 cybersecurity transactions, from 49 in Q1 2023. Q2 M&A volume of \$2.4 billion was roughly in line with Q1's \$2.6 billion. However, year-over-year Q2 declined from 68 deals, while M&A volume fell from a near-record \$14.0 billion the year before.
- 1H 2023 cybersecurity deal count decreased to 103 transactions, versus 146 over the same period in 2022, however the level remains in line with historical averages.
- While most transactions don't disclose multiples, available data suggests that industry enterprise value (EV) / revenue valuations on the whole declined from 2021 peaks. This reflects slower average vendor revenue growth and an emphasis towards achieving profitability. Valuation equilibrium is expected to be achieved over the next several quarters.
- Q2 2023 cyber venture / growth investing remained resilient, finishing the quarter with total funding of \$1.9 billion across 241 companies, in line with historical averages and providing assurance that available growth capital for cyber innovation remains high.
- As 2023 progresses, it becomes apparent that the deal environment is strengthening. Strategics and financial sponsors express growing eagerness to deploy capital for M&A and investment after a quiet late 2022 / early 2023. Notably, the number of companies with revenues greater than \$100 million seeking to acquire cyber vendors has grown 75% over the last three years, reflecting the increase in market spend and \$165 billion in expansion capital deployed in the cybersecurity domain since 2021. This creates structural M&A demand.
- Early Q3 results indicate an uptick in M&A activity, with notable transactions such as Cisco's acquisition of Oort and Thales' acquisition of Imperva (\$3.6 billion).
- The pipeline of worthy cyber initial public offering candidates has never looked more promising, and we anticipate a spate of companies going public when the window opens, as early as 1H 2024, which historically presages a strong rise in overall deal and investment activity. Names include Cybereason, Illumio, Netskope, Pindrop Security, Snyk and Transmit Security.

## NOTABLE Q1 2023 CYBERSECURITY M&A TRANSACTIONS

Announced	Acquirer	Target, Subsector	Deal Value / Multiple of LTM Revenues	Announced	Acquirer	Target, Subsector	Deal Value / Multiple of LTM Revenues
Jun-23	HashiCorp	BLUBRACKET Code Security	ND / ND	May-23	databricks	OKERA Data Security	ND / ND
Jun-23	REVEALD	EPIPHANY SYSTEMS CTEM*	ND / ND	May-23	chess	cyberlab Security Consulting & Services	ND / ND
Jun-23	THALES	tesserent Security Consulting & Services	\$120 million / 1.2x	May-23	onfido	Airside Identity & Access Management	ND / ND
May-23	ebay	CERTILOGO Fraud & Transaction Security	ND / ND	May-23	moz://a	FAKESPOT Fraud & Transaction Security	ND / ND
May-23	CISCO	Armorblox Messaging Security	ND / ND	Apr-23	NIGHT BARRON	VARMOUR Cloud Security	ND / ND
May-23	TECHONE	ThreadStone CYBER SECURITY Security Consulting & Services	ND / ND	Apr-23	ZEROFOX	LOOKINGGLASS Threat Intelligence	\$26 million / 5.0x
May-23	CROSSPOINT CAPITAL	ABSOLUTE Endpoint Security	\$870 million / 3.9x	Apr-23	Set Solutions	TRACE3 Security Consulting & Services	ND / ND
May-23	IBM	POLAR Data Security	\$60 million / ND	**Apr-23	ERICOM DEL. CONNECTED. BE SECURE.	cradlepoint Network & Infrastructure Security	ND / ND
May-23	WINDTRE	3D Security Consulting & Services	ND / ND	Apr-23	Cinven	ARCHER Risk & Compliance	\$1.3 billion / 5.8x
May-23	ripple	METACO Blockchain Security	\$250 million / ND	Apr-23	conpal	utimaco Data Security	ND / ND








\* Key to abbreviation: Continuous Threat Exposure Management (CTEM)

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

\*\*Lincoln Deal

# Q2 2023 Cybersecurity Investment Rolls On Despite Higher Interest Rate Environment

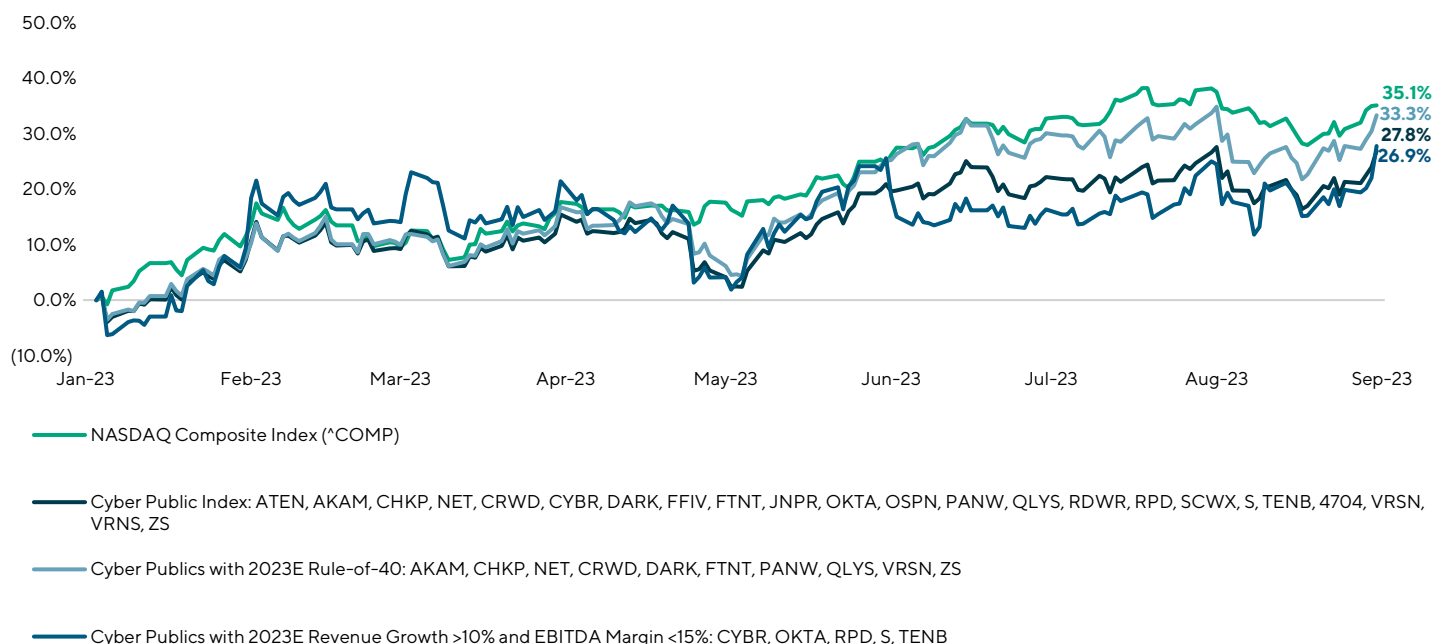
## NOTABLE Q2 2023 CYBERSECURITY GROWTH INVESTMENTS

Announced	Company	Subsector	\$ Raised in Round	Announced	Company	Subsector	\$ Raised in Round
Jun-23	 cyera	Data Security	\$100 million	Feb-23	 Magic	Identity & Access Management	\$52 million
Jun-23	 OSO	Code Security	\$15 million	Feb-23	 KEEPER	Identity & Access Management	ND
Jun-23	 SPECTEROPS	Attack Surface Management	\$25 million	Feb-23	 halcyon	Endpoint Security	\$50 million
Jun-23	 SHIFT5	Data Security	\$83 million	Jan-23	 CORO	Cloud Security	\$75 million
Jun-23	 blackpoint	MDR	\$190 million	Jan-23	 SAFE	Risk & Compliance	\$50 million
**May-23	 sekoia	SecOps & IR*	\$38 million	Jan-23	 ID.me	Identity & Access Management	\$132 million
May-23	 HUNTRESS	MSSP*	\$60 million	Jan-23	 cybereason	Endpoint Security	\$100 million

\*Key to abbreviations: Managed Detection & Response (MDR), Managed Security Services Provider (MSSP), Security Operations (SecOps), Incident Response (IR)  
Sources: 451 Research / S&P Capital IQ, Crunchbase, Pitchbook, public sources and Lincoln estimates \*\*Lincoln Deal

## Public Cyber Valuations Continue Strong Start in Q2 2023

- Year-to-date through August 31, the cyber public index of 23 vendors has risen by 27%, behind NASDAQ's rise of 35%, reflecting cyber's significant higher median valuation multiples.
- Rule-of-40 cyber publics in 2023 have seen valuations rise nearly 33% since the beginning of the year, while cyber publics with growth >10% and EBITDA <15% have seen their valuations rise by only 28%, reflecting the divergent recovery paths favoring profitable performers.



# Rule-of-40: Balancing Growth and Profitability is True North

## REVENUE GROWTH + EBITDA MARGIN IS THE GREATEST VALUATION PREDICTOR

- Until 2H 2022, revenue growth correlated most strongly with cybersecurity enterprise valuations, regardless of burn.
- With the public market downturn late last year came a sharp shift away from “growth at all costs” towards balanced growth and profitability (Rule-of-40). This is dramatically illustrated by the increase in EBITDA positive cyber vendors: 11 of 23 in 2022 compared to an estimated 21 of 23 by year-end 2023.
- At the end of Q2 2023, there was a 68% correlation between the Rule-of-40 and public cyber vendor 2023E EV / revenue multiples. In contrast, 2023E revenue growth showed a 53% correlation with 2023E EV / revenue multiples. Before mid-2022, growth-based valuation correlations were significantly higher than those based on Rule-of-40.
- The table below presents current Rule-of-40 statistics and revenue-based trading multiples for the public cyber vendor universe. It also includes the latest quarterly revenue and earnings per share (EPS) results compared to street estimates. It is worth noting that approximately 75% of vendors surpassed revenue estimates, and approximately 87% either met or exceeded EPS estimates.

## CYBER PUBLIC PERFORMANCE

	2023E Revenue Growth	2023E EBITDA Margin	Rule of 40 <sup>(1)</sup>	Actual vs. Estimated Results for Latest Quarter Reported		EV / Revenue CY 2023E <sup>(2)</sup>
				Revenue (\$ in millions)	EPS	
VeriSign, Inc.	5.6%	69.6%	75.2%	miss by -12.3	N/A	16.2x
CrowdStrike Holdings, Inc.	35.6%	20.9%	56.5%	beat by 16.4	beat by .07	10.8x
Zscaler, Inc.	36.7%	18.5%	55.2%	beat by 7.2	beat by .05	11.3x
Qualys, Inc.	13.2%	42.0%	55.2%	beat by 0.1	beat by .13	8.0x
Palo Alto Networks, Inc.	24.0%	28.6%	52.6%	beat by 5.4	beat by .12	10.2x
Check Point Software Technologies Ltd.	8.6%	43.4%	52.0%	miss by -2.5	beat by .07	5.6x
Fortinet, Inc.	23.5%	28.0%	51.5%	beat by 63.3	beat by .05	10.5x
Cloudflare, Inc.	31.5%	15.9%	47.4%	miss by -0.6	beat by .05	16.7x
Akamai Technologies, Inc.	4.8%	40.8%	45.6%	beat by 3.6	beat by .08	4.2x
Darktrace plc	26.6%	17.3%	43.9%	N/A	N/A	3.7x
A10 Networks, Inc.	10.1%	28.3%	38.4%	beat by 0.6	met expectations	3.4x
F5, Inc.	4.2%	33.9%	38.1%	beat by 4.3	beat by .11	3.0x
Juniper Networks, Inc.	16.2%	20.4%	36.6%	beat by 31.5	beat by .05	2.0x
Tenable Holdings, Inc.	14.8%	13.7%	28.6%	beat by 1.7	beat by .08	6.1x
Okta, Inc.	18.8%	8.2%	27.1%	beat by 7.3	beat by .10	4.9x
CyberArk Software Ltd.	22.4%	2.6%	25.0%	miss by -0.7	beat by .09	8.3x
Rapid7, Inc.	14.1%	10.7%	24.8%	beat by 1.9	beat by .07	4.2x
Trend Micro Incorporated	0.8%	23.0%	23.9%	beat by 7.9	beat by .34	2.8x
Varonis Systems, Inc.	9.6%	8.3%	17.9%	beat by 0.4	beat by .05	4.7x
SentinelOne, Inc.	41.4%	(25.9%)	15.5%	miss by -3.2	beat by .02	6.2x
OneSpan Inc.	9.9%	1.8%	11.7%	beat by 3.5	miss by -.04	2.1x
Radware Ltd.	(2.6%)	10.6%	8.0%	miss by -2.4	met expectations	2.1x
SecureWorks Corp.	(16.3%)	(11.1%)	(27.4%)	miss by -3.2	miss by -.05	1.4x

Note: (1) The Rule of 40 is calculated as annual revenue growth plus annual EBITDA margin; (2) Multiples as of 06/30/2023



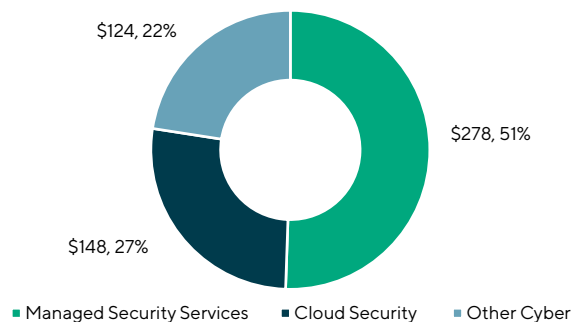
# Q2 2023 Trends and Market Takeaways

## ROWING INVESTMENT IN MANAGED SECURITY AND CLOUD SECURITY AND CONTINUED IMPORTANCE OF INNOVATION

**Managed Security and Cloud Security Continue to Drive the Largest Components of Deal Activity:** An estimated half of annual cyber spending will be in managed security services and cloud platforms within the next 10 years. As a result, acquirers and investors are over-indexing these areas.

- Recently, big investments have been funneled into MDR platforms including ArcticWolf, Avertium, Blackpoint, BlueVoyant, Critical Start, Deepwatch, eSentire, Expel, Ontinue, Quorum Cyber, Red Canary and ReliaQuest.
- Major recent investments in cloud-based cyber unicorns include Apiiro, Aqua Security, CipherCloud, Coro, Devo Illumio, Island, Netscope, Orca, Snyk and Wiz.

### 2023E CYBERSECURITY SPENDING (\$B)



**Innovation Reigns Supreme:** The twin cyber conferences in Las Vegas during August made two things clear. First, in-person cyber conferences are fully back – resuming their value as the premier means for the cyber community to market, collaborate and transact. Second, acceleration of computer-related achievements in technology – of course, artificial intelligence (AI), but even more broadly, extension of Moore’s Law to computing power (i.e., mass availability of quantum computing), storage availability, DevOps velocity and cloud usability all point to the realization of advanced digital life.

- As has always been the case, technology evolution is the handmaiden to cyber spend and innovation. This means that what was, historically, linear development of security, threats and solutions is now progressing increasingly in geometric fashion.
- The implications of this are still largely to be comprehended. However, Gartner and other seers of the future are investing heavily to create a path for corporates, consumers and governments to follow. The result is that the premium placed on innovation, technical dexterity and ability to simplify the complex and unknown will generate hefty premium values in cyber which has always been the tip of the spear in terms of technology progression.

- All this boils down to strong tailwinds to drive aggressive growth in cyber investment, spending and dealmaking.

## CYBER CONTINUES TO SHOW PROMISING AND RESILIENT PROSPECTS FOR M&A AS WELL AS GROWTH THROUGH AI AND COLLABORATION















































**M&A Consolidation to Accelerate Within, Rather than Across, Segment Stacks:** Surveys suggest that organizations seek to reduce the number of cyber vendors they utilize to achieve greater efficacy rather than reduce costs. As a result, we see acquisitions focused on creating category leaders that specialize in specific areas, rather than supermarket-style consolidators. Category leaders are forming in areas that include cloud workload security, data security, attack surface management, identity and access management, security service edge, extended detection and response and integrated risk management.

**AI Continues to Grow in Cyber:** AI dominated discussions at both RSA 2023 and the Gartner Security and Risk Summit, with cyber stakeholders strategizing how to integrate it into their cybersecurity plan. Despite concerns about AI’s potential benefits to cybercrime, there is a consensus that the new capabilities will significantly enhance threat detection and incident response, resulting in a net positive impact. Experts predict that annual global spending on AI-based cybersecurity products will skyrocket to \$97 billion by 2032, primarily driven by solution upgrades rather than the introduction of new security categories or AI-centric offerings. This surge in spending is expected to energize replacement and upsell cycles. Notably, more than 70% of organizations are already incorporating AI plans into their development roadmaps, as generative AI is anticipated to be embedded into security operations within the next half decade.

**Increased Vendor Collaboration:** RSAC’s ‘Stronger Together’ theme highlighted the value of alliances, leading to more announcements than any previous RSA conference. Presenters emphasized the pressing need for integration across the three key capability spectrums of visibility (endpoint, network and cloud), time (before, during and after an attack) and function (human / manual – AI / automation). CrowdStrike emphasized the necessity of a shared approach to security to combat the increasing attack sophistication. Cisco discussed the importance of information-sharing among vendors, government and cyber professionals to address the evolving threat landscape. Lastly, Accenture announced an alliance with Palo Alto Networks, combining extended detection and response, AI and expertise. Emphasizing cooperation with others benefits vendors and those with unified platform offerings alike.

*Sources: Allied Market Research, Fortune Business Insights, Gartner, Market.us, Spherical Insights, Transparency Market Research and VentureBeat*

# Select Lincoln Cybersecurity M&A & Financing Transactions

<p>2023</p>  <p>has received a minority equity investment from</p>  <p>Capital Raise</p> 	<p>2023</p>  <p>and its Israeli entity</p> <p>have been sold to</p>  <p>Connect Beyond</p> <p>a part of</p>  <p>Sell-Side</p> 	<p>2022</p>  <p>has sold</p> <p><b>ThreatINSIGHT</b></p> <p>a division of</p>  <p>to</p>  <p>Sell-Side</p> 	<p>2022</p>  <p>has been sold to</p> <p><b>proofpoint</b></p> <p>a portfolio company of</p>  <p>Sell-Side</p> 
<p>2022</p>  <p>has been sold to</p>  <p>Sell-Side</p> 	<p>2022</p>   <p>have acquired a majority stake of</p>  <p>Buy-Side</p> 	<p>2022</p>  <p>UNIFIED COMPLIANCE FRAMEWORK™ The Science of Compliance.™</p> <p>has been recapitalized by</p>  <p>Sell-Side</p> 	<p>2022</p> <p><b>TURN // RIVER</b></p> <p>has acquired and taken private</p>  <p>Acquisition Financing Buy-Side</p> 
<p>2022</p>  <p>has sold</p>  <p>to</p>  <p>Sell-Side</p> 	<p>2022</p> <p>A majority stake of</p>  <p>has been sold to</p>  <p>Sell-Side</p> 	<p>2021</p> <p><b>IK Partners</b></p> <p>has acquired</p> <p><b>TRUESEC</b></p> <p>from</p> <p><b>SOBRO</b></p> <p>Buy-Side</p> 	<p>2021</p>  <p><b>EURAZEO</b></p> <p>with</p> <p><b>planet</b></p> <p>have acquired</p> <p><b>datatrans.</b></p> <p>Buy-Side</p> 
<p>2021</p> <p><b>WICKS</b></p> <p>has sold</p>  <p>to</p>  <p>Sell-Side</p> 	<p>2021</p>  <p>has been sold to</p> <p><b>sumo logic</b></p> <p>Sell-Side</p> 	<p>2021</p> <p>Management and investors</p>  <p>have sold</p>  <p>to</p>  <p>Sell-Side</p> 	<p>2021</p> <p><b>AGARI</b></p> <p>has been sold to</p>  <p>Sell-Side</p> 

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