July 2024 Industry snapshot
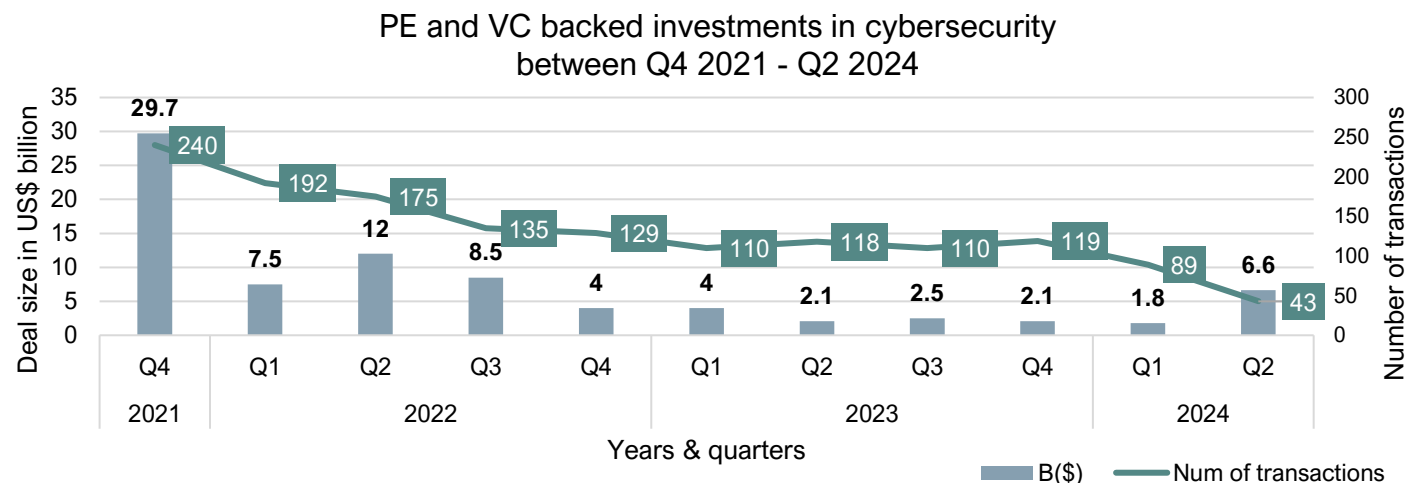
Cybersecurity report

Inside: Market highlights · Deal volumes · Key players · About Clairfield

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M&A activity in the cybersecurity market in 2023

In 2023 there were over **400** cybersecurity-related M&A deals in excess of **US$50 billion**, an 8% decrease from 2022, with several deals valued over **US$1 billion**. North America saw a significant drop in deal volume. Pure-play cybersecurity companies accounted for over half of the transactions. GRC and Identity Management continue to serve as the leading segments for M&A transactions.

PE and VC backed investments in cybersecurity between Q4 2021 - Q2 2024

		Deal size in US$ billion	Number of transactions
Q4 2021	29.7		240
Q1 2022	7.5		192
Q2 2022	12		175
Q3 2022	8.5		135
Q4 2022	4		129
Q1 2023	4		110
Q2 2023	2.1		118
Q3 2023	2.5		110
Q4 2023	2.1		119
Q1 2024	1.8		89
Q2 2024	6.6		43

Years & quarters

■ B($) — Num of transactions

Valuations in the cybersecurity market

Since 2021 valuations have ranged between **5X-10X** revenues and have dropped steadily since the peak of Covid. Today's cost of financing and lingering inflated valuations have caused a drastic slowdown in large transactions. This had led to current multiples ranging between **5-7X** for larger high growth companies and **3-5X** smaller companies, which is displayed on the graph above. Notice how the trend in value and number of deals is in steady decline with a slight uptick in Q2 of 2024. There have been outliers with acquisitions in the CSPM segment, for example, which garnered huge multiples for first mover start-ups. But, such

outcomes are less likely. Most VC-backed candidates did not necessarily need to demonstrate a positive EBITDA, but must show a roadmap to reach profitability. In 2022-2023 there had been a disconnect between seller expectations and what buyers were willing to pay, hence the decline in the volume of transactions. Board members have lately become more realistic on pricing over time. PE funds are beginning to revisit opportunities for large platform investment opportunities. The portfolio companies and PE firms have been opting for smaller (lower multiple) purchases of cyber companies as add-ons. We suspect that valuations are likely

to stabilize in 2024. In today's market, the first mover advantage really makes a difference. There are quite a few me-too products with limited differentiation in a competitive market. Such companies will likely keep valuations at current levels, despite the recent run-up in tech stocks.

Overview of 2023 activity: hot sector did not translate into more deals

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HACK ETF of cybersecurity

The HACK ETF of cybersecurity companies YTD is currently underperforming the S&P 500 by about 10%. This means that the market believes that the general economy is expected to grow at a higher pace than cyber companies. Thereby valuations, volume, and transaction size will likely decrease. This trend is consistent with 2023 compared to 2022 and continues into H1 of 2024.

A random sampling of 13 of the 39 companies in the HACK ETF shows a mean P/S ratio of 12X and a median of 8.7X both illustrate a high multiple and strong growth potential. Investor confidence and interest demonstrates continued growth for sector. The median is lower than the mean, indicating that a few companies with very high P/S ratios are pulling the mean upwards.
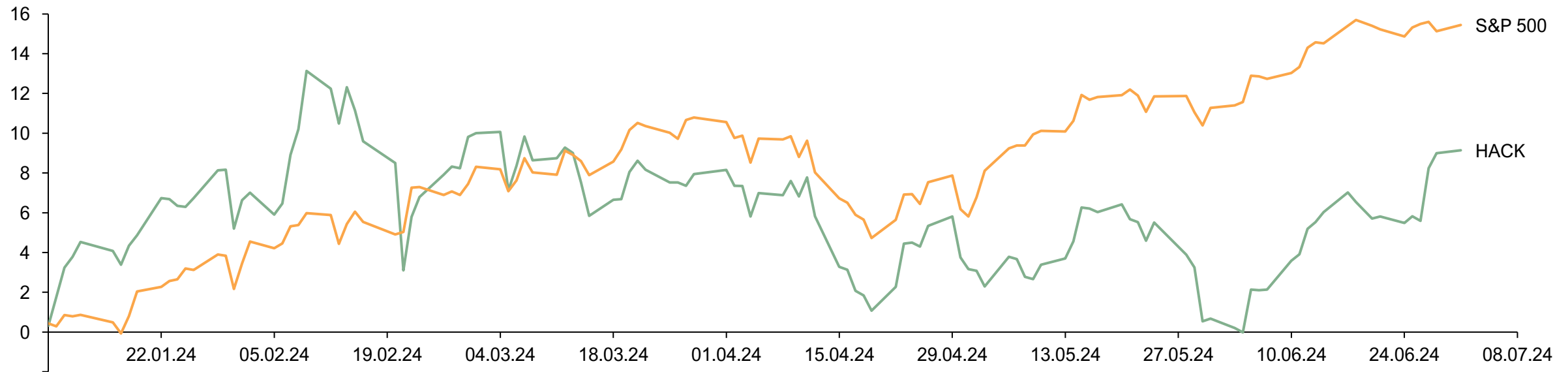
HACK ETF price evolution in percent compared to the S&P 500 price evolution in the past six months[1]

Source: [1] Link

3

Middle East instability and impact on M&A

The Middle East is living through some of the most volatile times in modern history. Indeed, the Houthis are disrupting shipping traffic, and the Gaza war will likely extend to Israel's northern front with Lebanon. This could ignite the region and contribute to instability impacting investors' appetite, valuations and pricing. Despite the war, and in contrast to the global trend of cyber M&A, in H1 2024 M&A volume increased; twelve Israeli cyber startups were sold compared to twenty one in all of 2023. According to YL Ventures, the averages lifespan till exit shortened to 4.5 years. This indicates that companies are being sold earlier and at lower valuations[1].

Deal examples include Palo Alto Networks acquiring Talon Cyber Security for US$625 million and Dig Security for US$315 million in 2023. US$2.9 billion was deployed in H1 of 2024. M&A deals include US Zscaler acquiring Avalor for US$350 million. According to WSJ Google is in advanced discussions to acquire Wiz for US$23 billion, Google's largest M&A to date. Two months prior to this announcement, Wiz raised US$1 billion, Israel's largest private placement ever. Just a few months before the capital raise Wiz acquired Gem Security for US$350 million. These transactions illustrate the industry's resilience and its growing appeal to investors. The majority of deals announced demonstrate that cross-border acquisitions will likely continue with US companies as the main acquirors.

Summary

Cyber companies are looking for solutions that scan the network or the IT of the enterprise for malicious infiltration. Due to the shortage of skilled workers, they do not have technical staff that can change the code or reconfigure the network. Instead, enterprises are seeking solutions that can automatically remediate and act once vulnerabilities are discovered. They don't expect automated software to do the entire job, yet it would free their staff for more complicated tasks. We believe that AI will not have as much of an impact on cybersecurity valuations as it has in other industries.

We foresee a continued surge in cyber attacks across multiple sectors in 2024-2025. Regulatory requirements for key sectors such as healthcare and finance will be implemented to protect individual private information. As the world undergoes geopolitical instability, it will likely lead state-sponsored cyber attacks. Consolidation will likely continue to achieve a one stop shop for cyber enterprise companies. Macroeconomic effects such as higher interest rates result in dealmakers striding cautiously.

Trends in cybersecurity in 2024

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Identity and Access Management (IAM)[1]

IAM refers to meticulous management of priority and control of access to companies' information to specific users. The system is multilayered to monitor breeches, harden maintenance, and counter vulnerabilities. This system must be activated across the entire network of the company for it to be effective. Presently, there is accelerated growth in the number of companies that are adopting the identity-first approach, for its proven record of effectiveness.

Cyber insurance[2]

Today, cybersecurity insurance has become an ordinary component of risk mitigation. The price of this insurance is directly correlated to the companies stand on cybersecurity. Since 2023 according to industrial data cybersecurity premiums have increased "~40%" in this period alone. Furthermore, "81% of underwriters believe cyber insurance premiums will increase slightly."

IoT ssecurity[3]

IoT refers to electronic Wi-Fi or wireless devices and sensors that are effortlessly penetrable and difficult to secure. IoT is experiencing exponential growth. According to Statista, "There were over 15 billion IoT devices worldwide in 2023, and this number is expected to double by 2030" Inevitably we expect major developments and standardizations in security protocols for IoT devices on a global level to cope with the extensity of this threat. We are already seeing the implementation of multi-factor authentication for access to such devices.

Zero Trust[4]

Operating on the notion of "never trust, always verify." Zero Trust assumes at its premise that threats occur both inside and outside a network. This model asks for access request at ever login point in a network to reduce vulnerabilities. Zero trust mitigates internal threats (both on the network and in backup infrastructure) from accessing information laterally. Remote work models, include access to the cloud the exacerbate the requirement for zero trust to offset threats. In the event of a breach, the Zero Trust system significantly limits the scope of an attack.

CSPM[5]

Cloud Security Posture Management (CSPM) tools are essential in today's cybersecurity landscape, providing automated monitoring and management of cloud environments to ensure security and compliance. These tools continuously scan for misconfigurations and vulnerabilities, ensuring adherence to industry standards. CSPM solutions also offer threat detection, remediation guidance, and risk assessment, helping organizations maintain a robust cloud security posture. CSPM growth is accredited to the adoption of the cloud services exacerbating the need for improved security measures.

Cross-border deals marked with countries relative flags

Prominent deals of 2024

Target	JUNIPER NETWORKS	Venafi 🇺🇸	BioCatch 🇮🇱	LogRhythm	VERITAS	SYNOPSYS
Deal size	acquired for US$14 billion	acquired for US$1.5 billion	acquired for US$1.3 billion[1]	acquired for US$2.52 billion[2]	Merger value US$7 billion[3]	acquired for US$2.1 billion
Acquiror	Hewlett Packard Enterprise	CYBERARK The Identity Security Company 🇮🇱	PERMIRA 🇬🇧	exabeam	COHESITY	FRANCISCO PARTNERS

Prominent deals of 2023

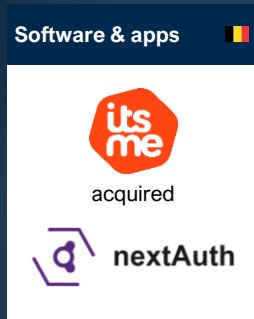| Target	Deal size	Acquiror
vmware	acquired for US$69 billion[6]	BROADCOM
splunk>	acquired for US$28 billion[7]	CISCO
imperva 🇺🇸	acquired for US$3.6 billion[8]	THALES 🇫🇷
Hewlett Packard Enterprise 🇺🇸	Sold 30% stake in joint venture for $2.1 billion[11]	H3C 🇨🇳

Google's historic and largest acquisition [9]

WIZ

Google is in advanced talks to purchase Wiz, an Israeli cloud security startup for US$23 billion. This would mark the largest acquisition of Google ever, reflecting strong investor confidence in cybersecurity and Israel. This announcement comes only two months following Wiz's having raised US$1 billion, at a US$12 billion valuation, and co-led by Andreessen Horowitz, Lightspeed Venture Partners, and Thrive Capital.

Public to private[4]

DARKTRACE

In 2023, an announcement that Thoma Bravo will be taking Darktrace, a UK-based cybersecurity firm, private in a US$5.32 billion deal. This acquisition represents a significant example of a cybersecurity company transitioning from public to private ownership. But has yet to be completed.

Source: [1] Link, [2] Link, [3] Link, [4] Link, [5] Link, [6, 7, 8] Link, [9] Link, [10] Link, [11] Link   Note: national flags indicate cross-border deals

Software & apps

acquired

Belgian Mobile ID ('BMID'), known for the Belgian leading application for digital identification, authentication and signing, Itsme©, acquired nextAuth, a KU Leuven/imec spin-off, providing even more secured end-to-end authentication.

"We were very pleased with the pragmatic yet thoughtful assistance from Clairfield on this transaction. The Clairfield team, Hans Buysse and Anke Dom, did a great job in assisting us to structure the deal and align incentives with the new team."
— Wouter Vanderheere, CFO BMID

"This deal was characterised by a marvellous collaboration, follow-up and professional complementarity by both the Allen&Overy and Clairfield team. Our team successfully served BMID on several operations so far and will continue to do so in the future."
— Hans Buysse, managing partner of Clairfield in Belgium

The itsme® app is used by more than seven million citizens to identify themselves, log into websites, confirm transactions and sign documents online. With this acquisition, BMID can further enhance the security and convenience of itsme®, thanks to the integration of nextAuth's patented mobile multi-factor authentication solution. Additionally, it allows BMID to enrich its product offering with secure authentication solutions that can be embedded into the apps of partners.

Co-founders, Jens Hermans and Roel Peeters, and R&D Engineer, Pieter Maene, will join BMID to ensure a smooth integration and strengthen the R&D capabilities.

"itsme® and nextAuth share a common ambition: to ensure that all citizens can log in and sign documents securely and easily. Cybersecurity has been a top priority for both companies from day one. Therefore, this merger is a logical step.

The integration of the nextAuth team, with its deep expertise and shared values, can only strengthen the evolution of itsme®. Moreover, the strong ties with KU Leuven are also particularly valuable," concludes Stephanie De Bruyne, CEO of itsme®.

Clairfield International in Belgium acted as exclusive financial advisor to Belgium Mobile ID.

We have specifically:

- Been involved in the development of the general growth strategy of BMID together with management, where we identified the acquisition opportunity.

- Analysed the financials of BMID & nextAuth and presented a detailed synergy analysis of the acquisition within different growth scenarios.

- Managed the preparation and flow of all transaction documents throughout the process to ensure a smooth workflow.

- Ensured effective liaison and communication between all parties involved.

- Negotiated key commercial & financial aspects of the legal documents to ensure the successful completion of the deal.

- Overall project management and client support from strategic consideration until settlement of the transaction.

Clairfield's cybersecurity experience

Fintech 🇺🇸	Fintech 🇩🇪	Internet services 🇮🇱🇺🇸	IT services 🇺🇸	IT services 🇦🇺🇺🇸	IT services 🇫🇷
GBG acquired **IDOLOGY**	**profihost** was sold to **dogado**	**CLOUDALLY** Secured Cloud Backup was sold to **zix**	**GRAYSHIFT** received strategic growth investment from **THOMABRAVO**	**accenture** acquired **BCT Solutions**	**IMPACT** PARTENAIRES sold **SECURIVIEW** NEXT GENERATION SOC A LINKBYNET COMPANY to **LINKBYNET**

IT services 🇮🇹	IT services 🇳🇱	IT services 🇬🇧	Software & apps 🇫🇷🇸🇪	Software & apps 🇫🇷	Software & apps 🇺🇸
Aurora owner of **rcs** BEHIND A SAFER WORLD was sold to **CY4 GATE** ELETTRONICA GROUP	Management and **QUADRUM CAPITAL** acquired **DataExpert**	**OGL** was sold to **wavenet**	**alcea** was sold to **ASSA ABLOY**	**BOSS INDUSTRIES** sold **elektron** to **CHAPSVISION** DATA MAKE SENSE	**GRAYSHIFT** completed a minority growth recapitalization with an investor group led by **PEAKEQUITY** PARTNERS

+70
Team
members

+380
Sector transactions
closed since 2006

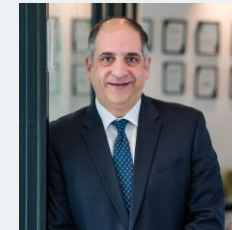**+EUR 10.4 billion**
Cumulative value of
sector transactions
closed since 2006

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