

CYBERSECURITY

Quarterly Report

Q3 2023

INSIDE THIS ISSUE

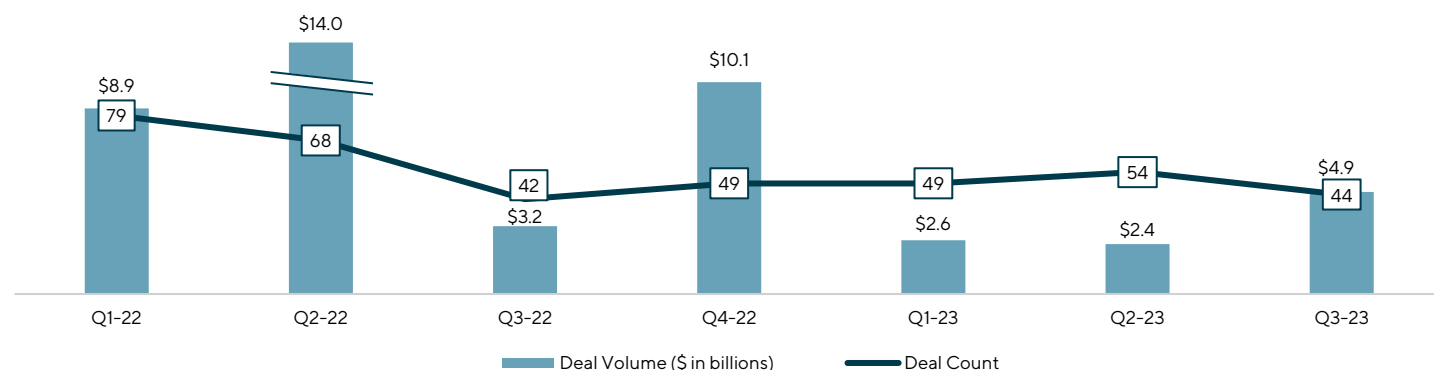
- Q3 2023 cybersecurity M&A and investment deal volumes increased from the previous quarter for the first time in 2023, potentially signaling the arrival of a new cycle of post-recessionary growth
- Profitability is an important focus for public companies in the sector, and 95% exceeded earnings per share (EPS) expectations as of the latest quarter. This is somewhat at the expense of revenue growth, as only 61% met or exceeded revenue expectations
- Growth rate plus EBITDA margin performance (Rule-of-40) continues to be the primary valuation driver for public cyber vendors, as markets continue to reward companies that demonstrate a balanced growth and profitability profile
- Newly enacted SEC requirements for swift cyber incident disclosure and risk management transparency will supercharge the rise of Continuous Threat Exposure Management (CTEM) solutions for proactive cybersecurity measures
- As Cloud Platforms and Managed Detection and Response (MDR) become the primary recipients of cyber spending, investors will continue to focus heavily in these areas, while product vendors revamp their strategy to compete

Q3 2023 Cybersecurity M&A and Investment Volumes Increase over Q2, Reversing Several Consecutive Quarterly Declines

OVERVIEW

- Year-over-year Q3 cyber sector mergers and acquisitions (M&A) deal activity and volume rose, as did consecutive quarterly deal volume (see graph below).
- While YTD sector M&A activity remains below 2022 levels, last quarter's rise suggests activity levels are recovering.
- Q3 showed a pick-up in public buyer activity, reflecting improved cyber index share price performance, and willingness to pay high revenue multiples for growth targets in favored areas, including Data Security Posture Management, Cloud Infrastructure Security and Identity Threat Detection and Response. Acquisition appetite remains high in managed security services among private equity.
- In Q3, venture / growth investing into cybersecurity rose volume-wise from Q2, while declining in volume and deal count on a year-over-year basis (see graph on next page).
- Sector investment activity YTD declined from 2022, but remains in-line with the pre-2021 five-year historical average.
- We see average venture / growth check sizes continuing to rise, with strongest interest in areas that include Security Posture Management, Cloud Security and MDR.
- Anecdotally, there appears to be a substantial increase in growth investments at the same or below prior round values, and/or with more structure.

QUARTERLY CYBER M&A ACTIVITY



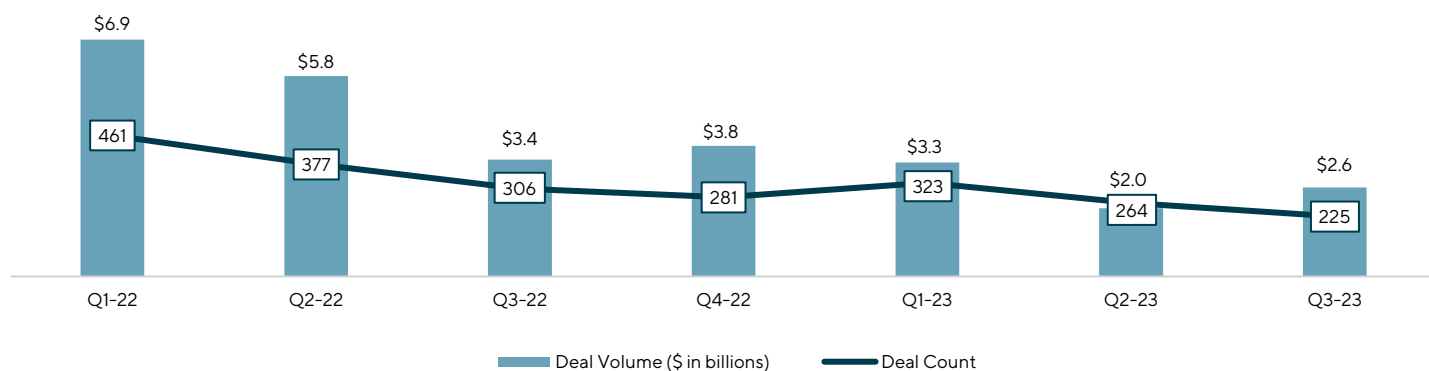
SELECT Q3 2023 CYBERSECURITY M&A TRANSACTIONS

Announced	Acquirer	Target, Subsector	Deal Value / Multiple of LTM Revenues	Announced	Acquirer	Target, Subsector	Deal Value / Multiple of LTM Revenues
Sep-23	paloalto networks	Dig Data Security Posture Management	\$350 million / ND	Aug-23	ARMOR	QUANTUM Managed Security Service Provider	ND / ND
Sep-23	tenable	hermetic Cloud Infrastructure Security	\$265 million / 26.5x	Jul-23	THALES	imperva Data and App Security	\$3.6 billion / 6.1x
Aug-23	PARSONS	SEALINK TECH Security Consulting and Services	\$200 million / ND	Jul-23	CISCO	FORT Identity and Access Management	ND / ND
Aug-23	OWL Cyber Defense	Big Bad Wolf Security Security Consulting and Services	ND / ND	Jul-23	EDGE	ORYX LABS Secure Web Gateway	ND / ND
Sep-23	Battery	CODESECURE Application Security	ND / ND	Jul-23	ZURICH	SPEARTIP Managed Detection and Response	ND / ND
Aug-23	CHECK POINT	perimeter 81 A Check Point Company Zero Trust Network Access	\$490 million / 24.5x	Jul-23	CARLYLE	NEVERHACK Security Consulting and Services	ND / ND
Aug-23	rubrik	Laminar Data Security Posture Management	\$220 million / 32.0x	Jul-23	SpireCapital	COBWEBS TECHNOLOGIES Threat Intelligence	\$200 million / 5.0x

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

Q3 2023 Cybersecurity M&A and Investment Volumes Increase over Q2, Reversing Several Consecutive Quarterly Declines (cont.)

QUARTERLY CYBER GROWTH INVESTMENT ACTIVITY



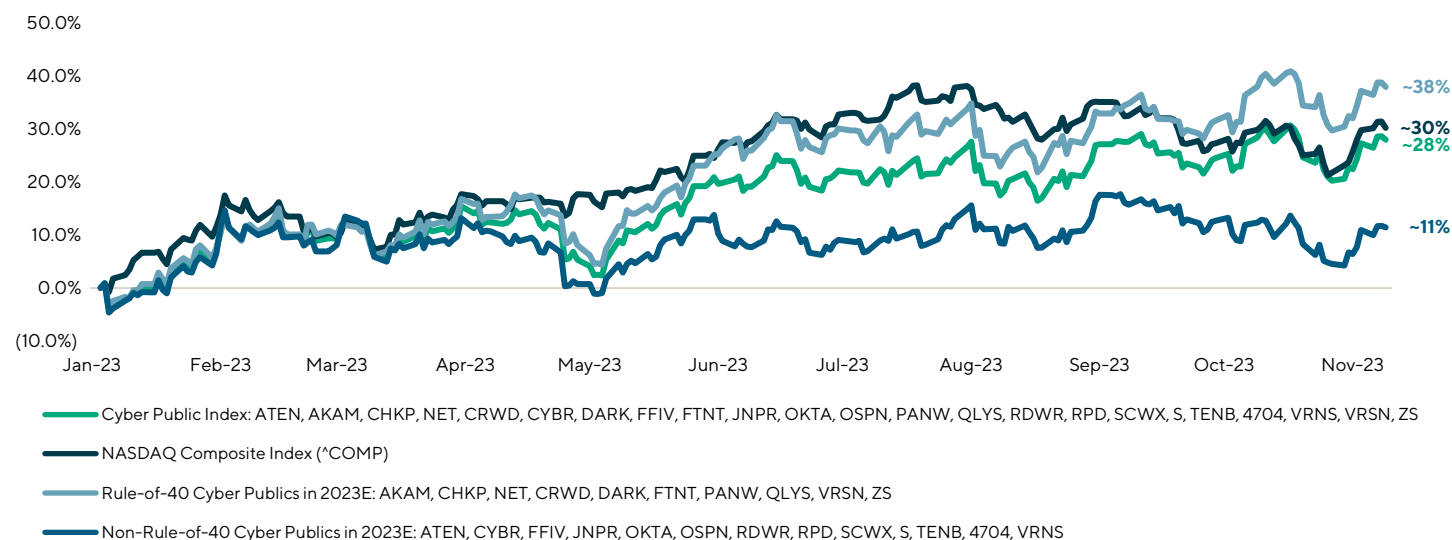
SELECT Q3 2023 CYBERSECURITY GROWTH INVESTMENTS

Announced	Company	Subsector	\$ Raised in Round	Announced	Company	Subsector	\$ Raised in Round
Sep-23	Gem	Cloud Threat Incident Response	\$23 million	Aug-23	CATO NETWORKS	Secure Access Service Edge	\$238 million
Aug-23	SpyCloud	Threat Intelligence	\$110 million	Jul-23	onetrust	Risk and Compliance	\$150 million
Aug-23	resilience	Risk and Compliance	\$100 million	Jul-23	netcraft	Digital Risk Management	\$100 million

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

Public Cyber Valuations Continue Recovery in Q3 2023

- Year-to-date through November 9th the Cyber Public Index of 23 vendors rose by 28%, versus a 30% rise for the NASDAQ, demonstrating the continued strength in the sector fueled by powerful demand tailwinds.
- Markets continue to reward vendors with a balance of growth and profitability. Rule-of-40 cyber publics in 2023 have seen their valuations rise by 38% since the beginning of the year, while cyber publics not expected to achieve Rule-of-40 have seen their valuations rise by only 11%.



Cyber Publics Continue to Meet EPS Projections but More are Missing Revenue Targets

RULE-OF-40 CONTINUES TO BE THE GREATEST VALUATION DRIVER

- While 95% of public cyber vendors met or exceeded earnings per share (EPS) expectations as of the latest reported quarter, only 61% met or exceeded revenue projections, illustrating the strong focus on profitability.
- 74% of cyber publics have an average broker rating of “outperform” or better, confirming the health of the overall sector.
- Since 2H 2022, balanced growth and profitability (Rule-of-40) has displaced revenue growth as the primary driver of valuation. This is 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 Q3 2023, there was a 72% correlation between the Rule-of-40 and public cyber vendor 2023E EV / revenue multiples. In contrast, 2023E revenue growth showed a 64% correlation with 2023E EV / revenue multiples.

CYBER PUBLIC PERFORMANCE

	2023E Revenue Growth	2023E EBITDA Margin	Rule of 40 ⁽¹⁾	Actual vs. Estimated Results for Latest Quarter Reported		EV / Revenue CY 2023E ⁽²⁾
				Revenue (\$ in millions)	EPS	
VeriSign, Inc.	5.0%	73.3%	78.3%	Miss by -\$2.0, -0.5%	Beat by \$0.03, 1.7%	14.5x
CrowdStrike Holdings, Inc.	35.6%	24.0%	59.6%	Beat by \$7.2, 1.0%	Beat by \$0.18, 32.5%	12.4x
Qualys, Inc.	13.2%	44.5%	57.7%	Beat by \$1.0, 0.7%	Beat by \$0.38, 33.4%	9.3x
Fortinet, Inc.	22.4%	28.4%	50.7%	Miss by -\$15.0, -1.1%	Beat by \$0.05, 12.6%	8.1x
Cloudflare, Inc.	31.8%	16.5%	48.3%	Beat by \$5.0, 1.5%	Beat by \$0.06, 62.7%	16.2x
Check Point Software Technologies Ltd.	3.6%	44.4%	48.0%	Beat by \$3.8, 0.6%	Beat by \$0.05, 2.4%	5.9x
Palo Alto Networks, Inc.	18.8%	28.9%	47.7%	Miss by -\$4.5, -0.2%	Beat by \$0.15, 12.0%	8.8x
Zscaler, Inc.	27.5%	19.9%	47.4%	Beat by \$24.4, 5.7%	Beat by \$0.15, 30.1%	10.6x
Akamai Technologies, Inc.	4.5%	41.6%	46.1%	Beat by \$5.6, 0.6%	Beat by \$0.08, 5.9%	4.7x
Darktrace plc	23.0%	18.5%	41.5%	Miss by -\$2.9, -2.0%	N/A	4.2x
F5, Inc.	0.9%	37.1%	38.0%	Beat by \$4.7, 0.7%	Beat by \$0.29, 9.1%	3.1x
Okta, Inc.	19.2%	10.3%	29.5%	Beat by \$21.7, 4.1%	Beat by \$0.10, 44.5%	5.7x
Tenable Holdings, Inc.	15.5%	13.9%	29.4%	Beat by \$3.1, 1.6%	Beat by \$0.05, 24.6%	6.1x
Rapid7, Inc.	12.9%	14.5%	27.4%	Beat by \$1.8, 0.9%	Beat by \$0.08, 18.8%	4.4x
CyberArk Software Ltd.	23.6%	3.2%	26.8%	Beat by \$6.6, 3.6%	Beat by \$0.19, 79.7%	8.7x
A10 Networks, Inc.	0.0%	26.6%	26.6%	Beat by \$0.8, 1.2%	Beat by \$0.01, 5.3%	3.4x
Juniper Networks, Inc.	5.6%	20.2%	25.8%	Miss by -\$2.4, -0.2%	Beat by \$0.05, 9.0%	1.7x
Trend Micro Incorporated	(2.7%)	22.8%	20.1%	Beat by \$1.4, 0.3%	N/A	2.0x
SentinelOne, Inc.	43.5%	(23.9%)	19.6%	Beat by \$8.4, 6.0%	Beat by \$0.06, 43.8%	7.0x
Varonis Systems, Inc.	5.7%	6.3%	12.0%	Miss by -\$3.2, -2.5%	Beat by \$0.05, 204.0%	6.1x
OneSpan Inc.	3.7%	0.7%	4.5%	Miss by -\$0.6, -1.1%	Miss by -\$0.12, -184.2%	1.5x
Radware Ltd.	(11.1%)	6.2%	(4.9%)	Miss by -\$0.3, -0.5%	Met Expectations	1.7x
SecureWorks Corp.	(21.9%)	(9.3%)	(31.2%)	Miss by -\$11.0, -10.5%	Beat by \$0.05, 35.0%	1.3x

Note: (1) The Rule of 40 is calculated as annual revenue growth plus annual EBITDA margin; (2) Multiples as of 09/30/2023

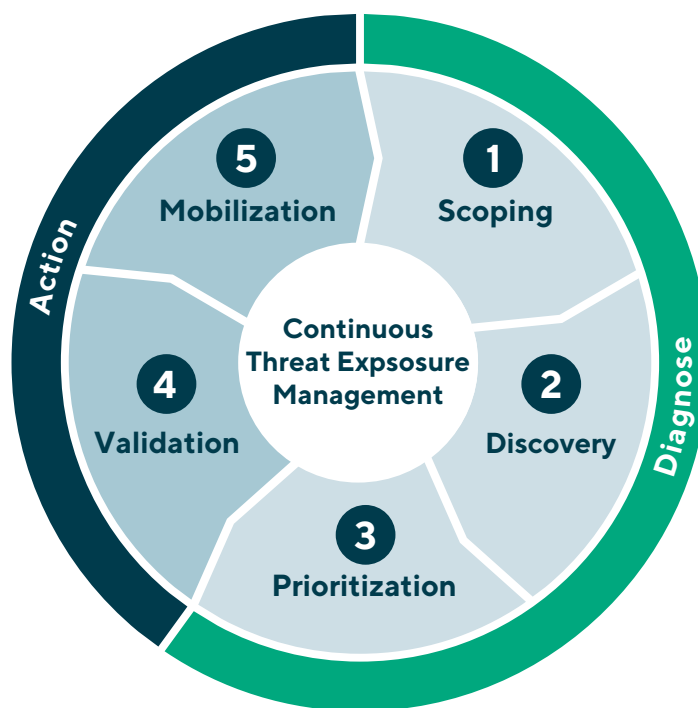
Q3 2023 – Spotlight on Cyber

SEC MEANS BUSINESS – WILL DRIVE EXPLOSIVE CTEM DEMAND

In July, after much debate, the U.S. Securities and Exchange Commission (SEC) voted three to two to require public company disclosure of material cyber incidents within four days of discovery, and annual publication of internal security risk management strategies, including processes for managing threats. What defines a “material cyber incident” and reasonable “risk management” efforts is somewhat vague, creating legal jeopardy for companies based on look-back finger-pointing. Which is the goal – using regulatory power to close a cyber vulnerability gap that, judging by ongoing massive breaches, is not closing fast enough, if at all.

Adding to stress on public boards, several weeks ago the SEC sued SolarWinds and its former chief information security officer for securities fraud in connection with failure to disclose vulnerabilities resulting in massive breaches of the company that occurred between 2018 and 2020. SEC prosecutions may mean jail time, which undoubtedly will accelerate efforts by companies to prevent breaches and prove they are doing so adequately. Gartner Research has coined a meta-space that encompasses multiple preventative cyber areas, calling it Continuous Threat Exposure Management (CTEM). CTEM comprises vulnerability management, cyber governance, risk, management and compliance, red-teaming and validation. The last five years saw Detection and Response explode – endpoint detection and response, extended detection and response, network detection and response, MDR and identity threat detection and response. Now, expect the rise of CTEM giants that prevent breaches and jail time by strengthening, measuring and certifying security risk posture.

CTEM COMPONENTS (GARTNER RESEARCH)



ZERO TRUST IS A MUST

In the early-2000s, a group of chief information security officers that came to be known as the Jericho Group were the first to set out principles to define and solve the challenge to digital security posed by de-perimeterization. Over time, shorthand for the concept of security outside and across corporate networks became known as “Zero Trust”. In 2014, Google began publishing articles that brought Zero Trust to prominence. Google later created BeyondCorp, which formalized the Zero Trust framework. Today, Zero Trust has become the dominant paradigm for architecting a complete, continuous cyber-secure environment within and across organizations, users and cloud.

Today, investors, chief information security officers, boards and security vendors define their cyber spending strategies around progressing Zero Trust. Areas of high focus within the framework include: Zero Trust Network Access, which underpins Secure Service Edge (note recent ZTNA acquisitions of Perimeter81 by Check Point, **Ericom by Ericsson** (a Lincoln International deal) and Axis by HPE); Security Monitoring and Analytics for feeding context-based access controls and Microsegmentation for controlling lateral malicious movement.

Q3 2023 – Spotlight on Cyber (cont.)

CYBER IS BECOMING ALL CLOUD AND MDR

As Lincoln wrote in its Q2 2023 report, within five years, the lion's share of enterprise cyber spend is expected to run exclusively through Cloud Platforms (e.g., Zscaler, Netskope) and MDR providers (e.g., ArcticWolf, ReliaQuest), rather than product vendors. Both represent security delivery models combining multiple solution segments. Cloud Platforms enable organizations to subscribe for security products via Software as a Service. MDRs outsource management of security processes. Both approaches enable organizations to simplify satisfaction of cybersecurity requirements.






























We count six types of MDRs today (see table below): MSS Enablers, Closed MDRs, Managed SOC, Open MDRs, CTEM+MDR and Managed Security Service Providers (MSSPs). The industry is in stage-two of MDR creation. The first stage established the sector as an expansion of MSSP which is limited largely to aggregating and monitoring events without responding to them; the second is specialization and consolidation among MDR players; and the third is convergence of MDR with cyber product vendors.

In the current phase, we see creation of MDR powerhouses through consolidation, led by private equity, which is rapidly buying and building platforms. In the third stage, which will start occurring in 2024, strategics will acquire MDRs and infuse their products into managed service platforms. Currently most vendors partner with MDRs, though several including CrowdStrike and Rapid7, as well as big consultancies including Deloitte, own major MDR businesses – many more will follow.

SIX WAYS OF MDR

	Description	Growth	Gross Margin	R&D Spend (% of rev.)	EBITDA Margin
MSS Enabler	<ul style="list-style-type: none"> MDR / SOC-in-a-box Turns MSPs and consultancies into MSSPs and MDRs 	High	65-70%+	10-20%	0-15%
Closed MDR	<ul style="list-style-type: none"> Proprietary Most productized 	High	60-70%+	20%+	<0%
Managed SOC	<ul style="list-style-type: none"> Manage client's in-house SOC for them 	High	50-60%+	8-12%	10-20%
Open MDR	<ul style="list-style-type: none"> Third-party integration-centric Flexible deployment and use cases 	Mid	55-65%+	7%+	5-20%
CTEM + MDR	<ul style="list-style-type: none"> Heavily prevention-focused Compliance capabilities 	Mid	50-60%+	10%+	10-25%
MSSP	<ul style="list-style-type: none"> Managed SIEM More detection than response Gen 1 MDR 	Low	40-55%+	3-6%	10-25%

Select Lincoln Cybersecurity M&A & Financing Transactions

<p>2023</p> <p>sekoia</p> <p>has received a minority equity investment from</p> <p>BrightPixel BANQUE des TERRITOIRES INP PARIBAS ASSET MANAGEMENT OMNES Seventure</p> <p>Capital Raise</p> <p> </p>	<p>2023</p> <p>ERICOM and its Israeli entity</p> <p>have been sold to</p> <p>cradlepoint Connect Beyond</p> <p>a part of</p> <p>ERICSSON</p> <p>Sell-Side</p> <p>  </p>	<p>2022</p> <p>ELLIOTT</p> <p>has sold</p> <p>ThreatINSIGHT a division of</p> <p>Gigamon</p> <p>to</p> <p>FORTINET</p> <p>Sell-Side</p> <p></p>	<p>2022</p> <p>illusive</p> <p>has been sold to</p> <p>proofpoint</p> <p>a portfolio company of</p> <p>THOMABRAVO</p> <p>Sell-Side</p> <p> </p>
<p>2022</p> <p>zecOps</p> <p>has been sold to</p> <p>jamf</p> <p>Sell-Side</p> <p></p>	<p>2022</p> <p>apax NEWALPHA ASSET MANAGEMENT</p> <p>have acquired a majority stake of</p> <p>MAILINBLACK</p> <p>Buy-Side</p> <p></p>	<p>2022</p> <p>UCF UNIFIED COMPLIANCE FRAMEWORK The Science of Compliance</p> <p>has been recapitalized by</p> <p>Allomer Capital</p> <p>Sell-Side</p> <p></p>	<p>2022</p> <p>TURN RIVER</p> <p>has acquired and taken private</p> <p>tufin</p> <p>Acquisition Financing Buy-Side</p> <p> </p>
<p>2022</p> <p>code42</p> <p>has sold</p> <p>CRASHPLAN</p> <p>to</p> <p>MILL POINT CAPITAL</p> <p>Sell-Side</p> <p></p>	<p>2022</p> <p>A majority stake of</p> <p>eperi</p> <p>has been sold to</p> <p>EQUISTONE</p> <p>Sell-Side</p> <p> </p>	<p>2021</p> <p>IK Partners</p> <p>has acquired</p> <p>TRUESEC</p> <p>from</p> <p>SOBRO</p> <p>Buy-Side</p> <p> </p>	<p>2021</p> <p>Advent International EURAZEO</p> <p>with</p> <p>planet</p> <p>have acquired</p> <p>datatrans.</p> <p>Buy-Side</p> <p>   </p>
<p>2021</p> <p>WICKS</p> <p>has sold</p> <p>SONTIQ</p> <p>to</p> <p>TransUnion</p> <p>Sell-Side</p> <p></p>	<p>2021</p> <p>DF LABS Cyber Security Cloud Control</p> <p>has been sold to</p> <p>sumo logic</p> <p>Sell-Side</p> <p> </p>	<p>2021</p> <p>Management and investors</p> <p>ELRON arvato BERTELSMANN</p> <p>have sold</p> <p>SECURETOUCH</p> <p>to</p> <p>Pingidentity</p> <p>Sell-Side</p> <p>  </p>	<p>2021</p> <p>AGARI</p> <p>has been sold to</p> <p>helpsystems</p> <p>Sell-Side</p> <p></p>

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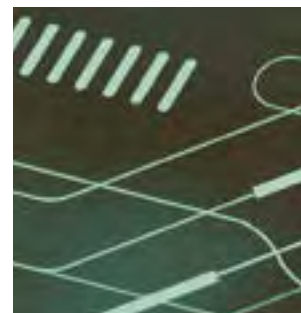
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