

# Safeguarding the Smart Grid: Why Partnering Makes Sense for Utilities & Infrastructure and Cybersecurity Companies



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The threat of cyberattacks has increased across the globe, with organizations seeing a 67% increase in the last five years. While protecting against cyberattacks is top-of-mind for nearly every business, for critical national infrastructure and utilities any failure of defenses means loss of those basic services on which all of us depend at work and at home.

Historically, high technology sector valuations have deterred many, including infrastructure and utilities companies, from pursuing cybersecurity acquisitions. More affordable for most is some form of partnership, with the infrastructure and utilities company gaining heightened security and the cybersecurity company gaining valuable financing and / or channels to market. Such partnerships can also be structured flexibly, allowing for the fast-moving nature of the cyber market and the threats at hand.

## LINCOLN PERSPECTIVE:

Cybersecurity is a very hot topic in utilities and infrastructure: 54% of utility professionals globally across gas, water, solar and wind report they expect at least one cyberattack on critical infrastructure within the next year. However, only 42% rate their cybersecurity readiness as high, indicating an urgent need. As the cost of buy-as-a-service cyber protection contracts escalates, a partnering option can help protect profitability as well as the asset base.

Some common challenges encountered in partnerships:

**Quality assurance** – Cybersecurity is a complex, dynamic field where expertise is rare and expensive. Any company contemplating a partnership must ensure the cybersecurity partner has the necessary technical expertise and professional capacity.

**Retention** – Retaining cyber talent is extremely challenging, even for the best-known companies, in this highly competitive industry. It is important for partners to ensure they lock in capability and understand what this will cost.

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**Culture** – By their very nature, most top-class cybersecurity firms are entrepreneurial, innovative and dynamic, while many are also relatively small. It is vital to nurture and maintain an environment in which top cybersecurity talent will thrive, and this can be tough in large, compliance-dominated utilities and infrastructure companies which are often state- or semi-state-owned.

**Playing to each partner's strengths** – Engineers in utilities and infrastructure companies know exactly how their systems and on-the-ground facilities work. Cybersecurity experts understand how hackers think and what to look for to find previously unidentified vulnerabilities. It is this combined experience which can lead to innovative forms of cyber protection.

Ultimately, for those who create a successful partnership, we believe the scope of the joint business could be extended to provide a service to other companies—diversifying and creating a new revenue stream, with potential to spin out or IPO a cyber business at a later date. This, in turn, could make such deals attractive to Private Equity investors.

### What is the opportunity for Private Equity?

Investing or co-investing in a cybersecurity partnership in utilities and infrastructure can present PE investors a cost-effective way to obtain a stake in high-growth tech companies alongside a more established, predictable and well-financed utilities or infrastructures player. Whether it be a new three-way partnership or partnering an existing cybersecurity portfolio company with a utility player, the PE house can build a valuable asset without providing a large amount of funding and with built-in supply contracts (e.g. to the utility partner and its affiliates). Cybersecurity is typically a high-growth market, with investments often generating strong returns. While the space remains highly competitive, in the current climate this particular approach could enable PE firms to deploy less capital with less risk and a range of exit options.

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