US Managed Security Services

Sector Review – Sept 2023

THREESIXTYSEVEN
ADVISORS

Managed Security Services Overview

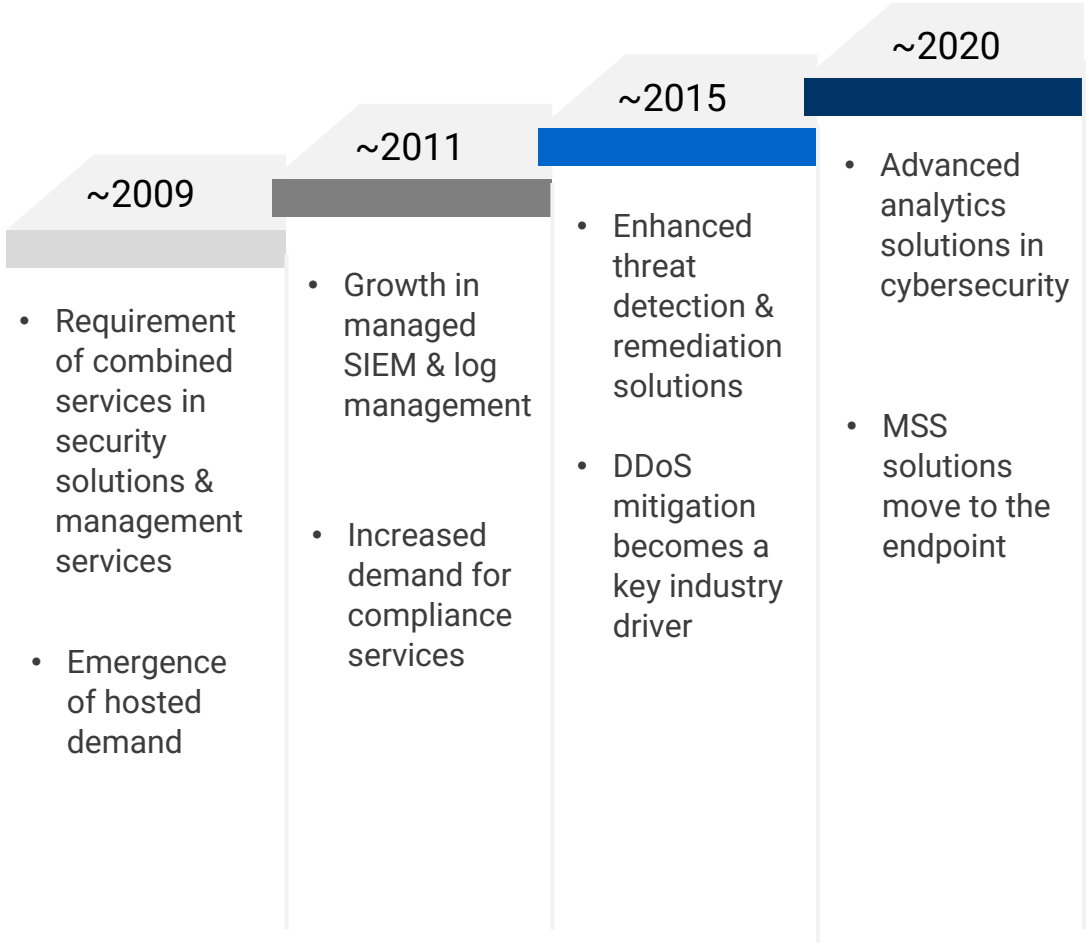
Managed Security Services

Security Solutions
Third party/ outsourced companies offering cloud, endpoint, network and data security services

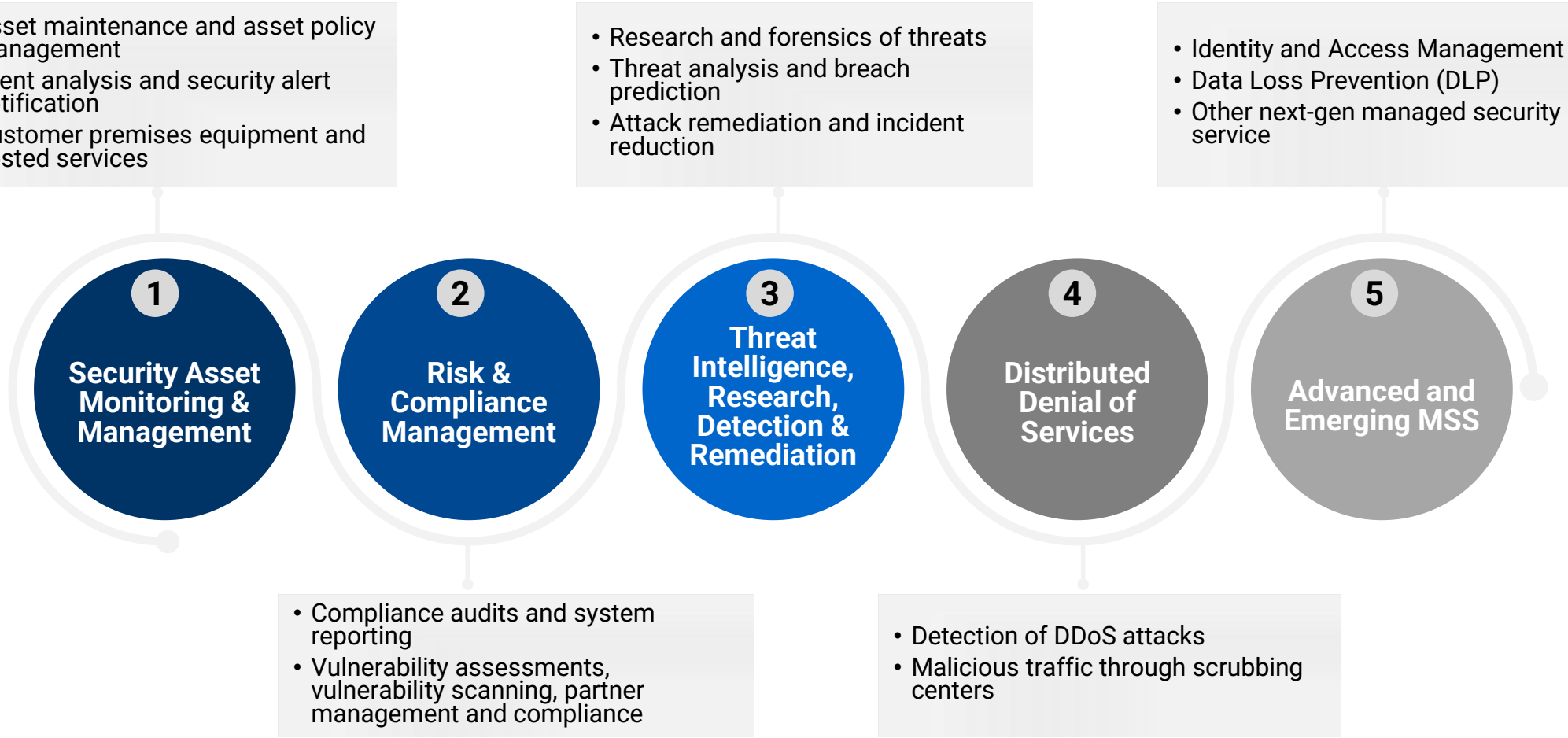
Monitoring & Incident Response
Round-the-clock surveillance for threat response and proactive risk intelligence. Skillful management of breaches to minimize fallout and prevent data compromise

Threat Intelligence & Vulnerability Management
Insights into emerging threats and vulnerabilities for proactive defense. Identifying and addressing system weaknesses before exploitation

Evolution of MSS

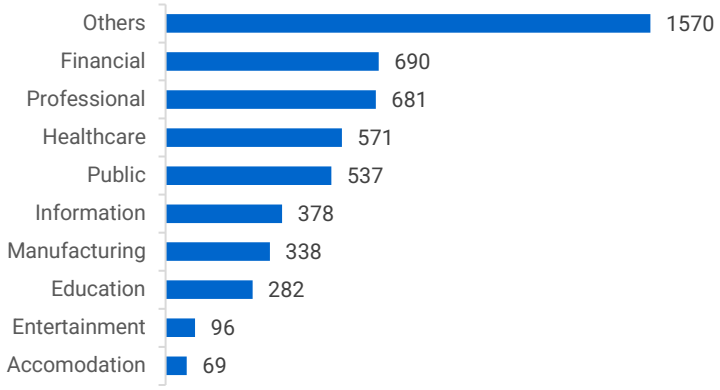


Key Segments of MSSPs

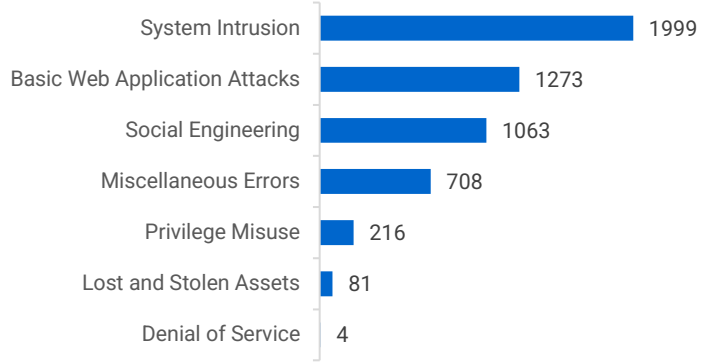


Key Growth Driver – Increase in Cybercrime

Global Data Breaches by Industry, 2022

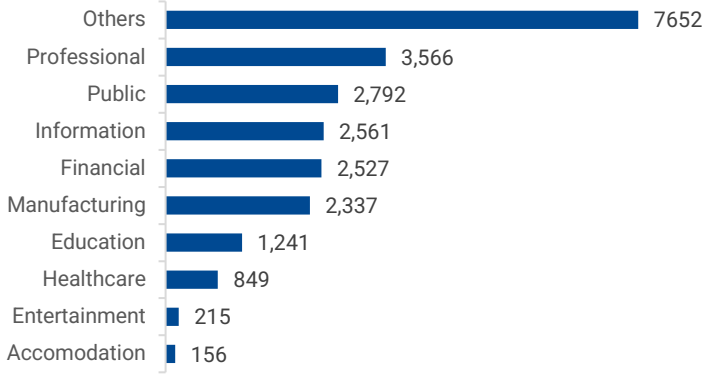


Global Data Breaches by Patterns, 2022

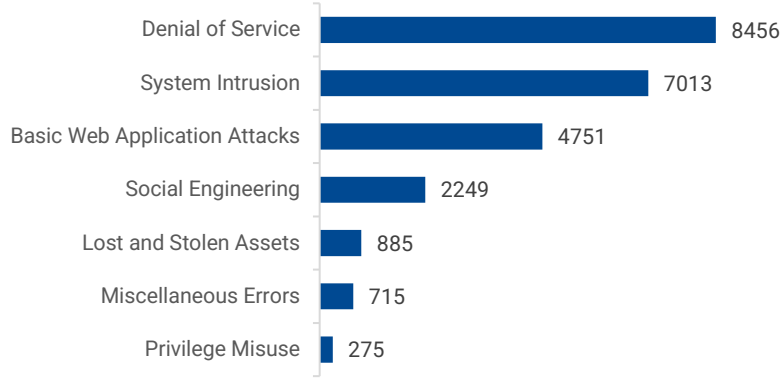


- In FY22, 23,896 data incidents occurred with 5,212 breaches
- ~422 Mn individuals' data was compromised
- Twitter experienced the most significant impact, with approximately 221 Mn users' data breach

Global Data Incidents by Industry, 2022



Global Data Incidents by Patterns, 2022



Source: Version's data breach investigation report 2022, ITRC data breach report 2022

MSSP – Key Trends

Rapid shift of organizations to cloud leading to high demand of **cloud security** services

- Approx. 94% of organizations have moved their data to the cloud
- As cloud environments become more complex, managing infrastructure, scale, and security becomes increasingly challenging for organizations

Source: McAfee

Heightened focus on software and data security due to major breaches

- Focused on activities like Managed Detection & Response (MDR) is a tech-human approach for real-time threat detection & response

Source: Ponemon Institute

IOT's rising presence in workplaces driving MSSPs to offer specialized services

- MSSPs offer IOT specific security services including: device management, vulnerability assessment, threat detection, safeguarding IoT

Source: Mordor Intelligence

AI & ML are revolutionizing MSSP, creating new ways to provide security services

- AI & ML enhance threat detection by spotting patterns in large data, enabling quicker, precise security threat identification
- AI & ML-enabled cybersecurity responds 50% faster to threats than non-adopters

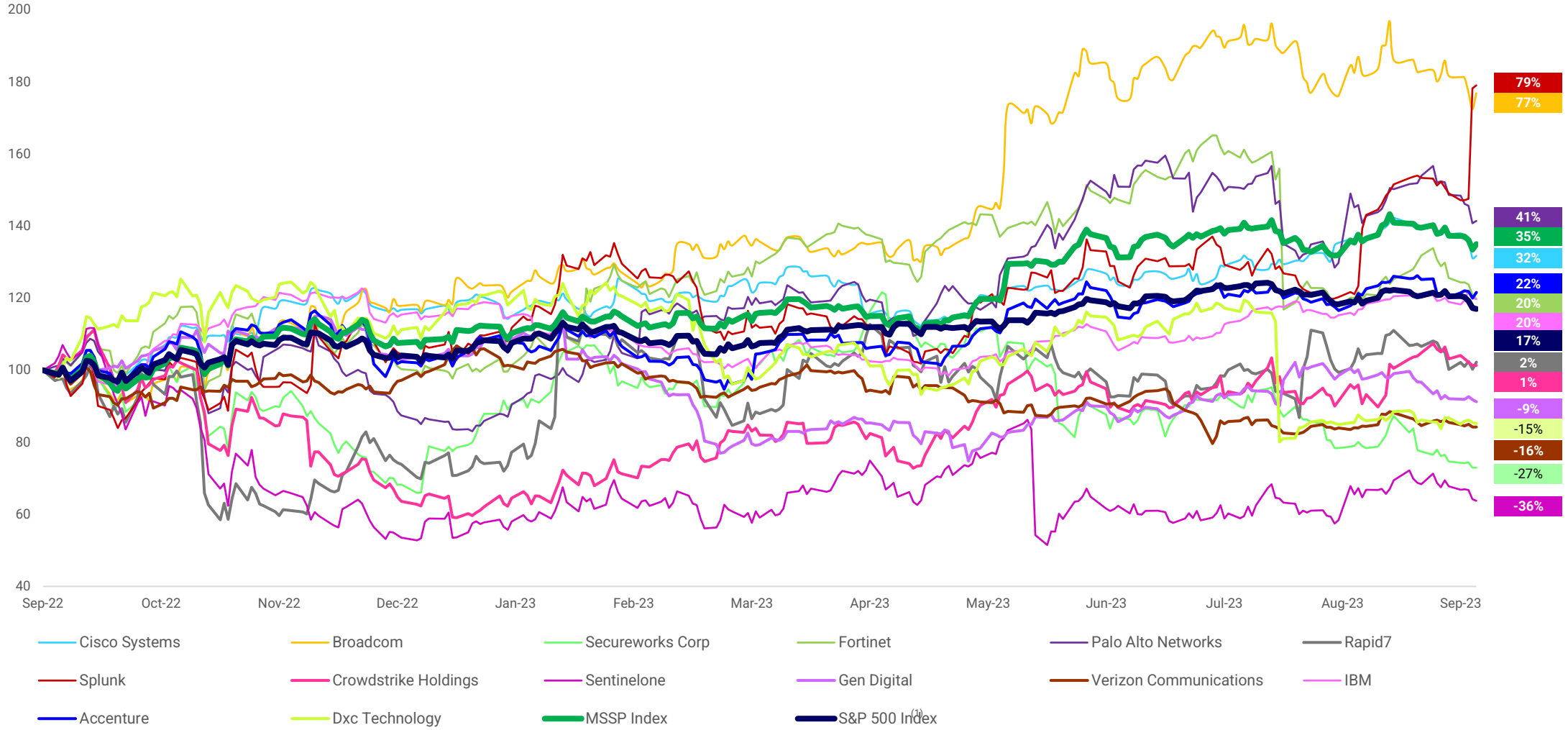
Source: IBM

Zero trust security's continuous monitoring and validation needs providing MSSPs a unique opportunity to assist customers

- The Zero Trust Security model access is only granted after authentication and access is continuously monitored
- 70% of organizations see zero trust security as a high or critical priority for their cybersecurity strategies

Source: Survey by IDG

Key MSSP Companies: Last 12m Equity Market Performance



Note 1: The MSSP Index has been calculated as market cap weighted average of 14 companies
2 : Stock prices are as on 23rd Sept 2023

MSSP- Listed Comparables Valuation Analysis

Trading Statistics[1]

US$ Mn, Unless Otherwise Stated; Calendarised to December Fiscal Year End

Company	Market Cap	Enterprise Value[3]	EV/Revenue		EV/EBITDA[2]		P/E	
			FY 2022A	FY 2023E	FY 2022A	FY 2023E	FY 2022A	FY 2023E
MSSP Companies								
Broadcom	355,355	382,454	11.4x	10.6x	18.5x	16.5x	27.3x	24.7x
Cisco Systems	229,018	231,454	4.3x	4.0x	11.7x	11.1x	19.5x	18.1x
Accenture	213,184	205,977	3.3x	3.2x	18.0x	17.9x	30.0x	28.7x
Verizon	141,046	290,399	2.1x	2.2x	6.1x	6.1x	6.6x	7.4x
IBM	133,025	176,165	2.9x	2.8x	12.0x	11.6x	81.1x	18.4x
Palo Alto Networks	71,087	72,645	11.9x	9.7x	46.6x	35.0x	N.M.	N.M.
Fortinet	46,099	45,407	10.3x	8.3x	34.6x	29.5x	55.4x	48.1x
Crowdstrike	34,151	32,460	22.4x	14.5x	N.M.	75.0x	N.M.	N.M.
Splunk	19,646	22,830	8.5x	6.2x	N.M.	30.7x	N.M.	N.M.
Sentinelone	4,833	4,798	23.4x	11.4x	N.M.	N.M.	N.M.	N.M.
Dxc Technology	4,225	7,090	0.4x	0.5x	2.7x	3.1x	7.3x	N.M.
Rapid 7	3,151	3,760	5.5x	4.8x	76.1x	45.0x	N.M.	N.M.
Secureworks	676	544	1.2x	1.4x	N.M.	N.M.	N.M.	N.M.
Mean			**8.3x**	**6.1x**	**25.1x**	**25.6x**	**32.5x**	**24.2x**
Median			**5.5x**	**4.8x**	**18.0x**	**17.9x**	**27.3x**	**21.6x**

Notes

1. Based on Broker estimates and latest available balance sheet data
2. For EBITDA and P/E all values above 50 and 70 respectively are indicated as "N.M." = "Not Meaningful"
3. Enterprise value = Market cap + Gross debt + Gross cash + Preferred stock + Minority interest; Cash includes Long-term marketable securities

MSSP- Listed Comparables Margin Analysis

Trading Statistics of MSSP Companies [(1)]

US$ Mn, Unless Otherwise Stated; Calendarised to December Fiscal Year End

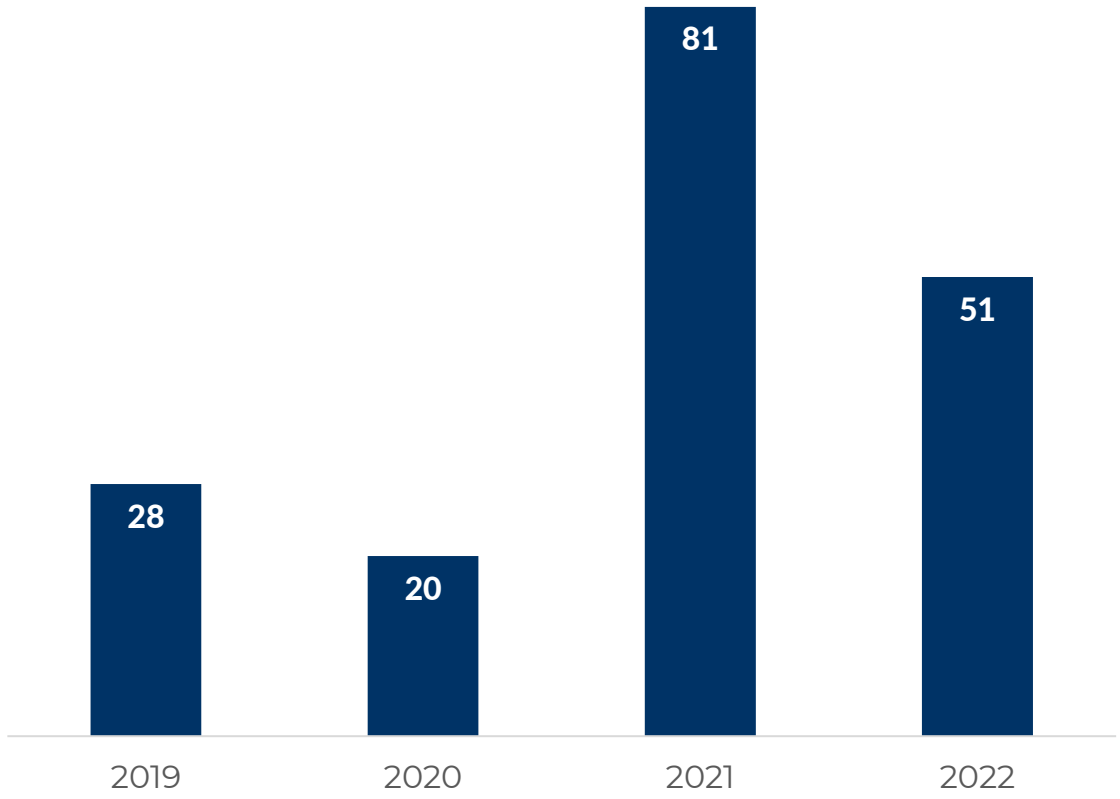
	EBIT Margin		EBITDA Margin		Net Margin	
Company	**FY 2022A**	**FY 2023E**	**FY 2022A**	**FY 2023E**	**FY 2022A**	**FY 2023E**
Broadcom	20%	23%	25%	27%	N.M.	6%
Cisco Systems	17%	18%	24%	25%	6%	12%
Accenture	61%	62%	63%	64%	35%	41%
Verzion	22%	22%	35%	36%	16%	14%
IBM	34%	33%	37%	36%	23%	22%
Palo Alto Networks	5%	18%	8%	20%	N.M.	N.M.
Foritnet	13%	16%	16%	19%	N.M.	N.M.
Crowdstrike	4%	8%	7%	11%	N.M.	N.M.
Splunk	8%	8%	16%	16%	4%	N.M.
Sentinelone	2%	N.M.	3%	N.M.	N.M.	N.M.
Dxc Technology	15%	14%	19%	18%	11%	11%
Rapid 7	N.M.	N.M.	N.M.	N.M.	N.M.	N.M.
Secureworks	26%	26%	28%	29%	19%	19%
Mean	**19%**	**23%**	**24%**	**27%**	**16%**	**18%**
Median	**16%**	**18%**	**22%**	**25%**	**16%**	**14%**

Notes

1. Based on Broker estimates and latest available balance sheet data
2. For EBITDA, EBIT and Net Margin all values smaller than zero or above 90, 120 and 150 respectively are indicated as "N.M."
3. Enterprise value = market cap + gross debt + gross cash + preferred stock + minority interest; cash includes long-term marketable securities

Slowdown in M&A Deal Values – Expected to Pickup in 2H 2023

Global Cyber Security M&A Deal Value ($ Bn)



Source: Momentum Cyber

- Global cybersecurity M&A market faced a slowdown in FY22 which further continued in FY23 potentially attributable to current challenging macroeconomic environment and high interest rates
- We estimate an uptick in the market in the 2nd half of 2023 primarily due to availability of dry powder with PE funds and strategic buyers

Key Trends Shaping MSSP M&A Deals in the Last 12-24 Months

Emergence of Private Equity Led Roll-up Deals

- Emerging trend of roll-up deals where multiple small companies are merged with a holding company to form a larger Co.
- Example: Roll-up Deal of 15 companies in one platform to create largest MSP business
  - Alfair capital and Walter Capital Partners have acquired MSP Corp., a Canadian managed service provider group, in a transaction worth more than $100 million. After the acquisition, MSP Corp will merge with Groupe Access, a managed service provider of technology and cybersecurity solutions. Prior to these deals, both companies acquired a number of smaller MSPs

3-4 companies merging together to create large Managed service providers

- Trend of multiple specialist IT managed services firms merging to create a larger firm with expanded offerings
- Example: Merger to create IT Managed Services platform, Procure IT
  - Procure IT, was formed through the merger of four technology advisory firms - Premiere Worldwide, Krewe Advisory Group, Mercury Communication Services and Premier Technology Advisors. The newly formed company will provide a platform for IT sourcing and spend, performance, and risk management

Key Trends Shaping MSSP M&A Deals in the Last 12-24 Months

Presence of Financial Sponsors looking for Platform Acquisition Opportunities

- Multiple financial sponsors and private equity funds exploring “platform” opportunities – i.e. acquiring an MSP company as their initial investment using which they will acquire more companies over time to create a niche platform play
- ~70 PE funds have already made an initial investment in an MSP company in which they are looking for add-on investments
- Key drivers of PE interest in the space include – fragmented market providing consolidation opportunities and high demand of consolidated solution offerings from end-users creating demand for full-service cybersecurity firms rather than specialized niches

Increasing Deal ticket sizes

- Average deal size has increased as larger PE funds are getting more involved in the MSS space
- Larger fund houses (with average $1.5Bn+ fund sizes) are now looking at platform investments in MSP space compared to smaller funds (~$500m average size) a couple of years ago

Managed Security Services – Selected M&A Deals

MSS Selected Precedent Transactions

Date	Acquiror	Target	Enterprise Value (US$ Bn)	Stake %	Target Business Description	EV/Revenue
Feb-23	Fracisco Partners	Sumo Logic	1.7	100%	The Sumo Logic Continuous Intelligence Platform™ helps practitioners and developers ensure application reliability, secure and protect against modern	NA
Feb-23	Vista Equity Partners	KnowBe4	4.6	100%	Provider of the security awareness training and simulated phishing platform	14.9x
Jan-23	Thoma Bravo	Magnet Forensics	1.8	100%	Digital forensics and incident response solution for organizations that need to remotely acquire & analyze evidence from computers, cloud, IoT, and mobile	NA
Oct-22	Thomabravo	Forge Rock	2.3	100%	ForgeRock offers various digital identities and accessibility of the users and also equips its employees	12.0x
Sep-22	Carlyle	ManTech international	4.2	100%	Provides data collection & analytics, enterprise IT or systems and software engineering services to federal clients	8.4x
Aug-22	Thomabravo	Ping Identity	2.8	100%	Provides identity management and self-hosted identity access management solutions to web identities and single sign-on solutions to provide standards to	9.1x
Jun-22	Kaseya	Datto	6.2	100%	A leading global provider of security and cloud-based software solutions purpose	12.4x
May-22	AMD	Pensando	1.9	100%	Provides infrastructure accelerators, which are optimized to execute a software stack delivering cloud, compute, network, storage, and security services at cloud	19.0x
Apr-22	Thoma Bravo	Sail point technologies	6.9	100%	Provides solutions in enterprise identity security	16.0x
Mar-22	Sentinal One	Attivo Networks	0.6	100%	Provides accurate in-network threat detection, analysis, and accelerated response to advanced, credential, insider, and ransomware attacks	17.6x
Mar-22	Google	Mandiant	5.4	100%	They help to transform company's cyber defense capabilities to mitigate threats and reduce risk—before, during, and after an incident.	10.6x
Jan-22	Vista Equity Partners and Evergreen coast	Citrix	16.5	100%	Citrix Secure Workspace Access, Citrix Secure Internet Access, and Citrix SD-WAN provide complete access and a security stack supporting organizations looking	5.2x
Aug-21	Thoma Bravo	Proofpoint	12.3	100%	A leading cybersecurity and compliance company	11.7x

Contact Us:

(813) 678-2630

810 S Sterling Avenue
Tampa, FL 33609

THREESIXTYSEVEN
ADVISORS