

CYBERSECURITY CEO SUMMIT



April 24, 2023

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Looking Back

Valuation Reset

Looking Ahead

10 Predictions

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Looking Back Valuation Reset

Takeaways

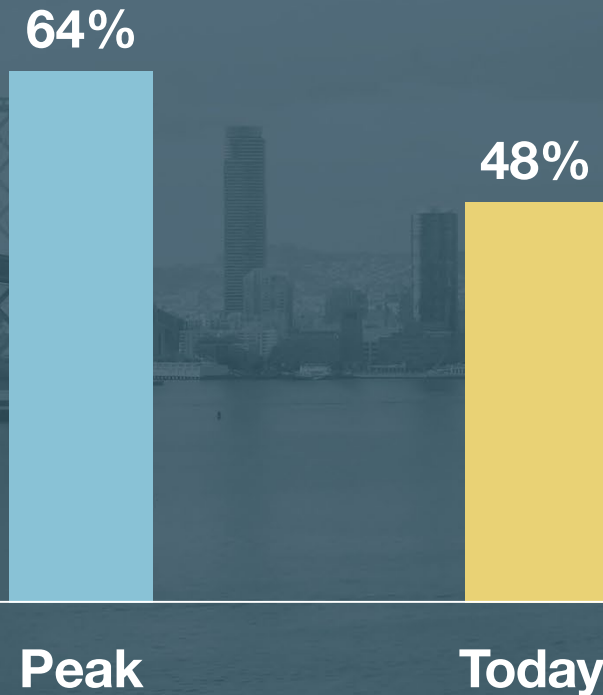
1. Growth is still important
2. But cash flow is increasingly so
3. 2021 was a historic anomaly

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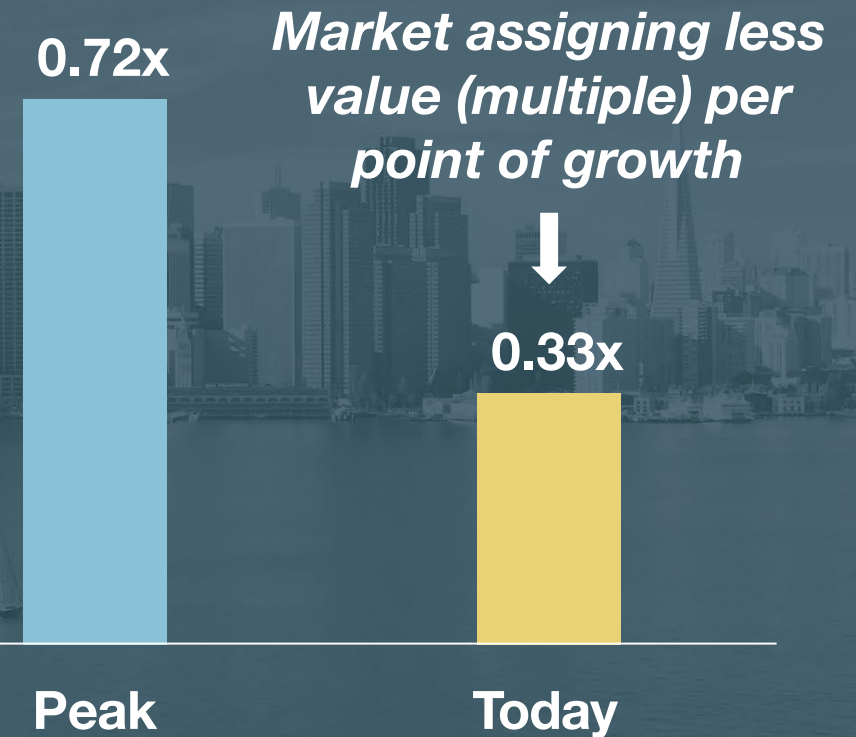
Security Multiples Still Correlated to Growth... Just Worth Less

Correlations Remain High...



NTM Rev. Growth vs. Mult. R-Squared

...Though Valuations Have Plummeted



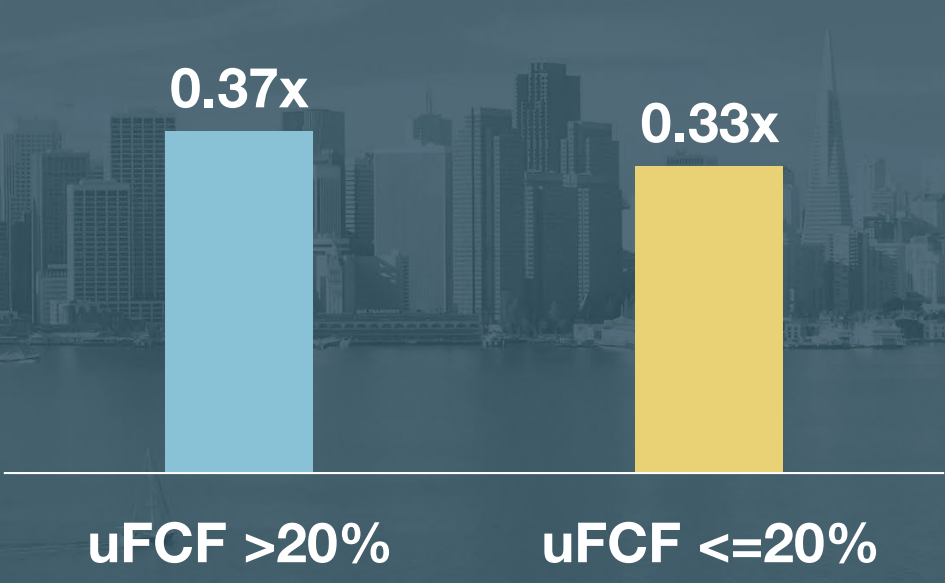
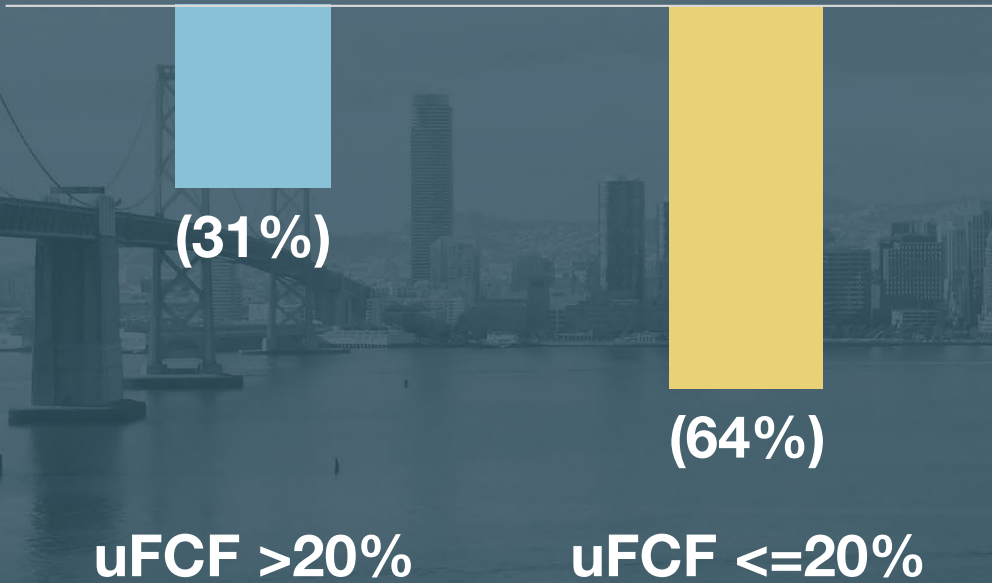
NTM Rev. Mult.-to-Growth Ratios

Source: Capital IQ as of 04/14/2023
"Peak" defined as 11/01/2021
N = 23 for security

Cash Flow Is Really Important...

Unprofitable Have Fallen Further...

...And Trade at a Discount



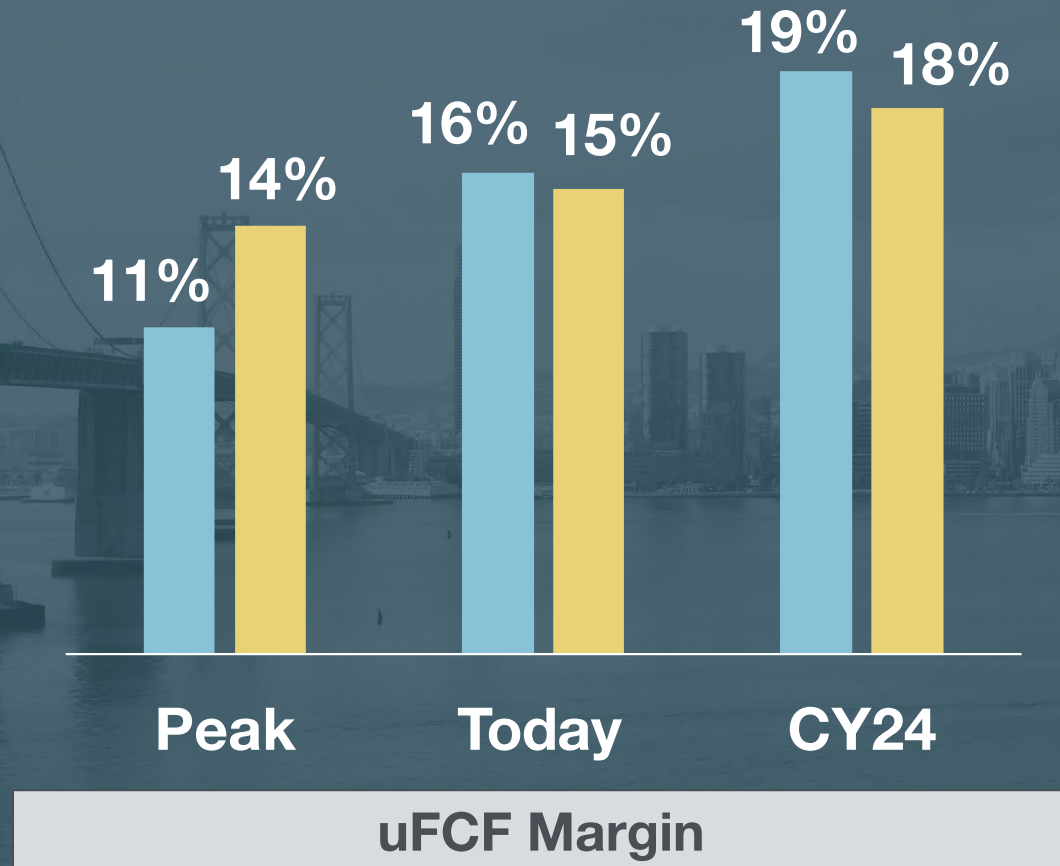
Price Change Since Peak

CY23E Rev. Mult.-to-Growth Ratios

Source: Capital IQ as of 04/14/2023
"Peak" defined as 11/01/2021
N = 23 for security

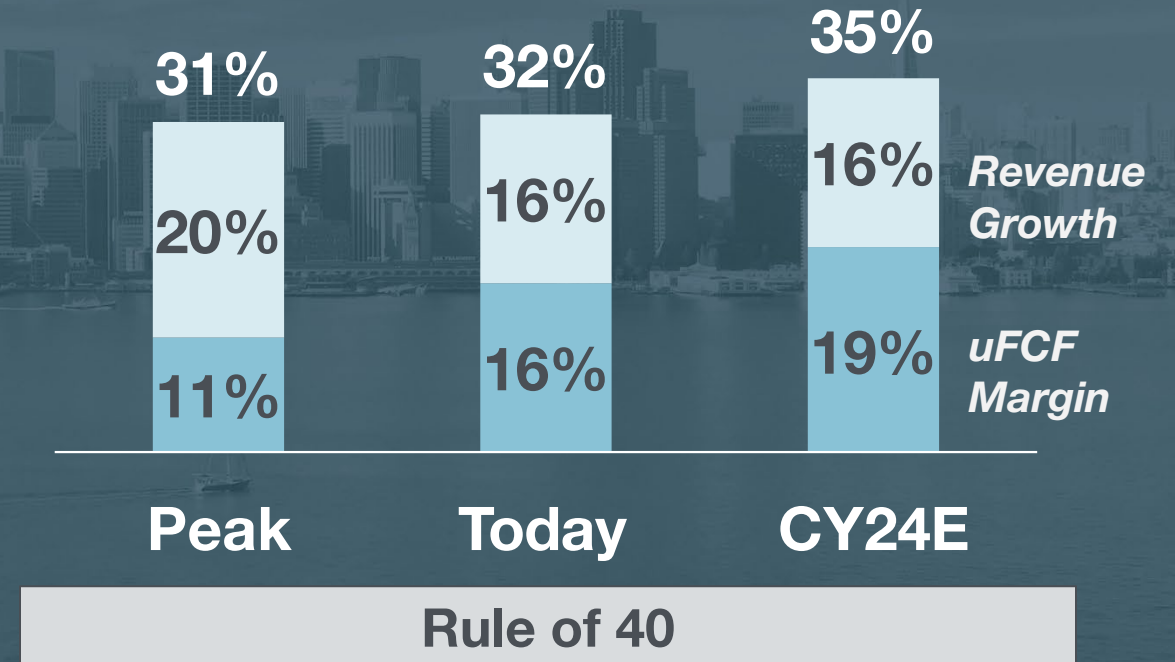
...And Operators Are Responding

Driving More Profit



Security Rule of 40 Mix-Shift

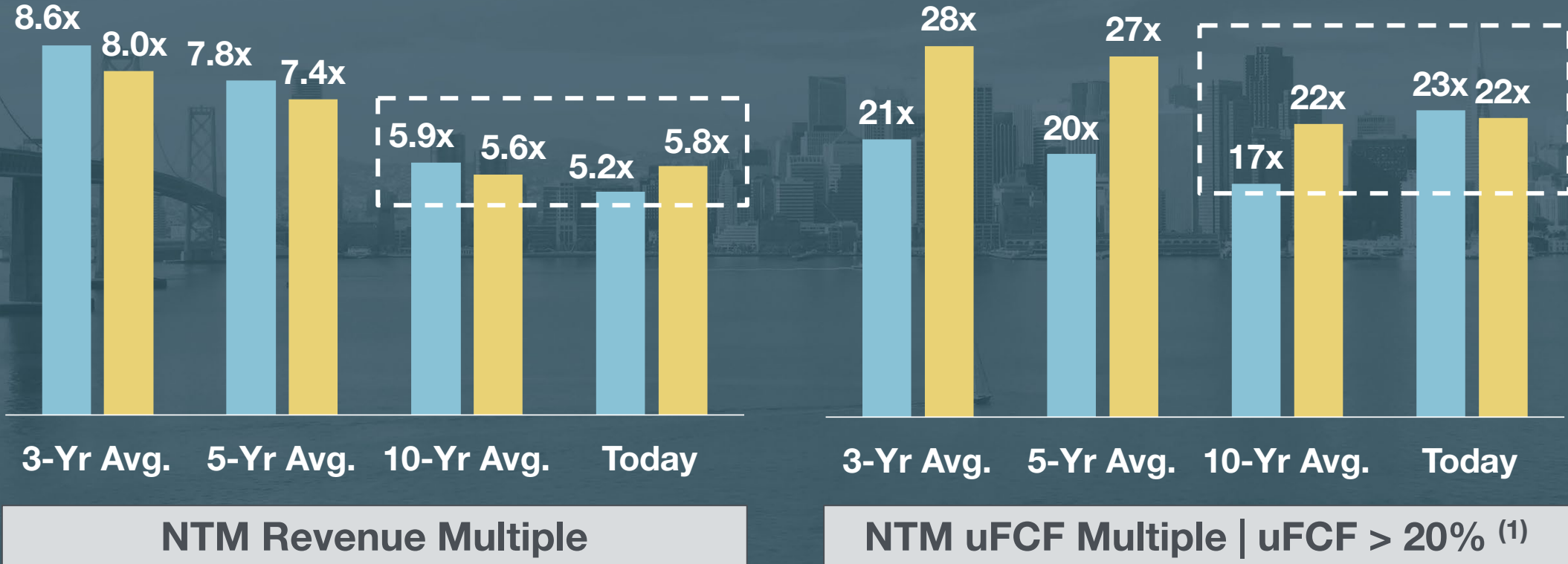
Median security comp is "Rule of 30", but arrives at 30% via higher margin and lower growth



Source: Capital IQ as of 04/14/2023
 "Peak" defined as 11/01/2021
 N = 23 for security, N = 162 for non-security. Non-security limited to public software companies with enterprise value > \$800MM

The Re-Rate Is In-line with 10-Year Averages and Here to Stay for the Foreseeable Future

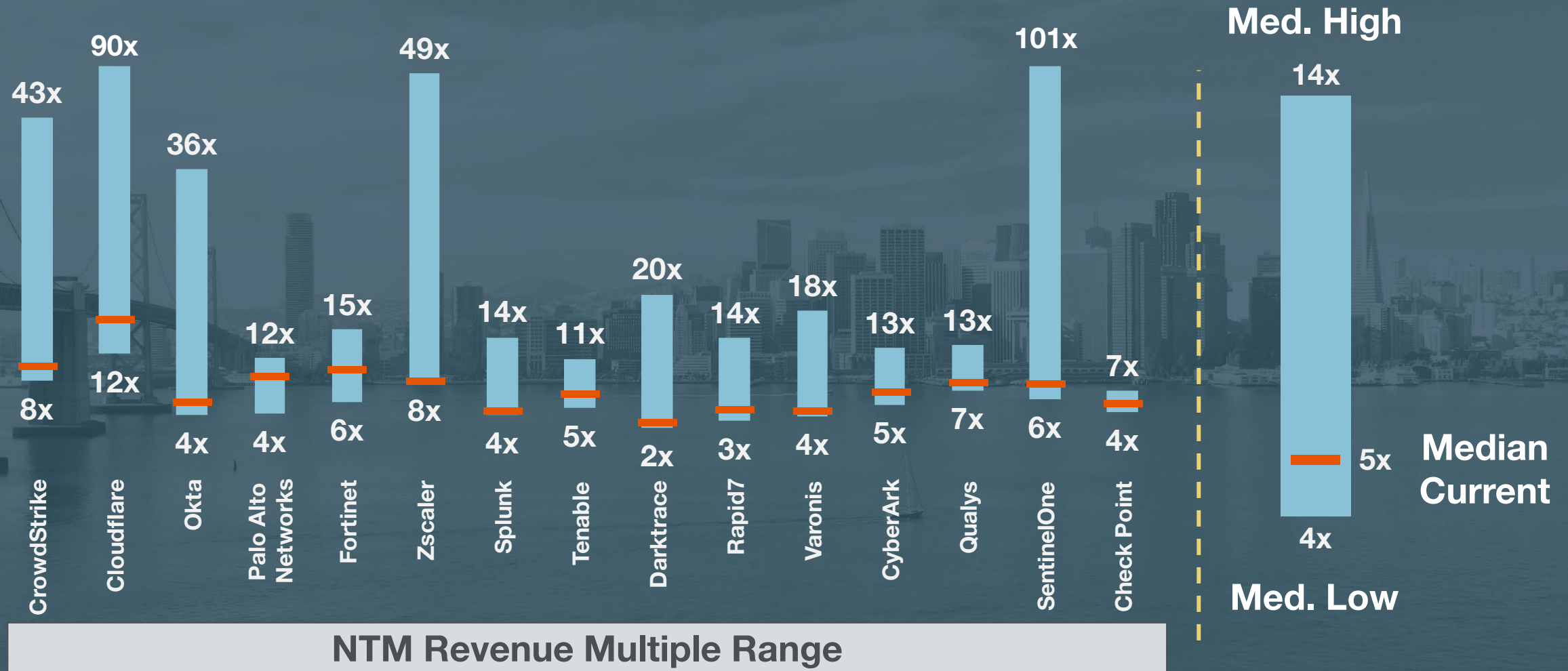
Be Mindful of Long-Term Cash Flow and DCF



Source: Capital IQ as of 04/14/2023
 N = 23 for security, N = 162 for non-security. Non-security limited to public software companies with enterprise value > \$800MM
 (1) Multiples in excess of 75x deemed NM

Public Market Multiples Are Useful Again...

...And Opportunities Exist in the Public Market



Source: Capital IQ as of 04/14/2023
 Shows peak and trough NTM revenue multiple between 2/29/2020 – 04/14/2023
 Note: Cloudflare and SentinelOne high are not to scale

Looking Ahead 10 Predictions

Perspectives on

1. Private Companies
2. IPO
3. M&A
4. Buyer Trends

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10 Predictions for the Cybersecurity Market

Private
Companies

- 1 Private-to-private consolidation will accelerate
- 2 Strategics still need innovation and will increasingly leverage M&A as opposed to internal R&D
- 3 Selling great technology without proven financial metrics will be increasingly hard

IPO

- 4 Cybersecurity companies of scale will be well-received when IPO markets re-open

M&A

- 5 Strategics won't be the major acquiring force
- 6 Private Equity is a major force in cyber and a potential value maximizing option

Buyer
Trends

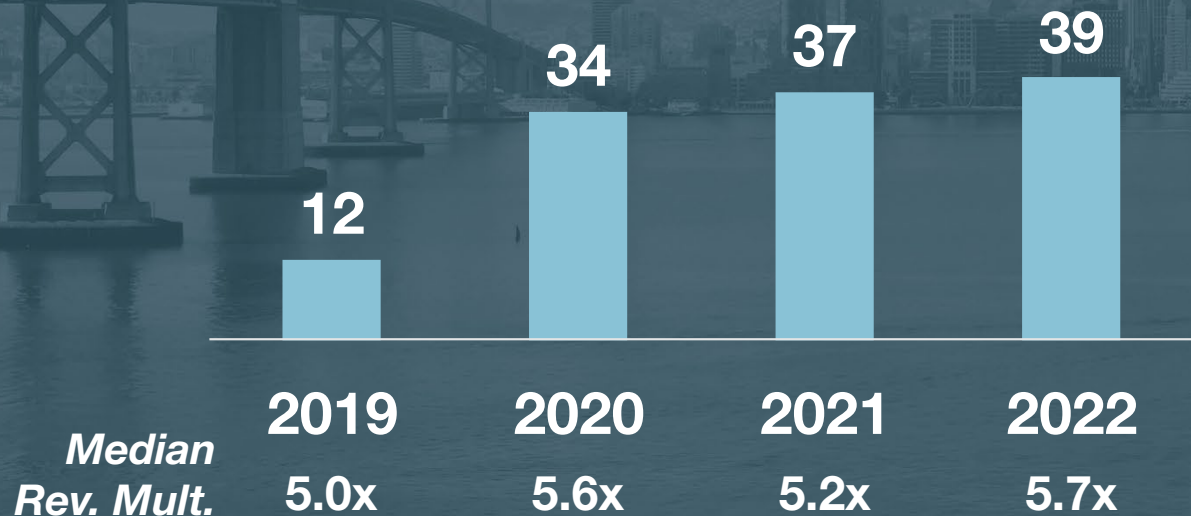
- 7 Security is increasingly consumed as a service and will be for the foreseeable future
- 8 The platform race: Customers are demanding complete, "good enough" solutions
- 9 Watch for hyperscalers and new entrants to emerge
- 10 Cyber is insulated and a growth market for the foreseeable future

Prediction #1

Private-to-Private M&A Likely to Increase

- Given the large number of scaled, \$100MM+ ARR companies with limited exit options, we predict private-to-private M&A, including to PE or PE-backed platforms, will continue to increase in 2023

Sponsor Add-On Deals



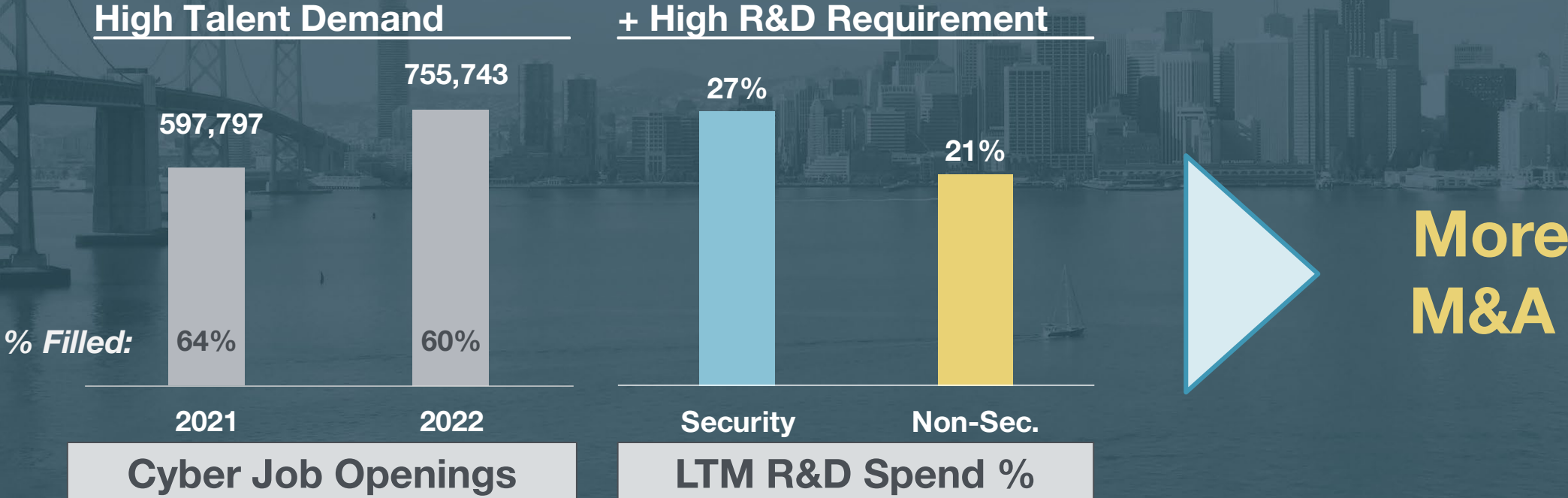
Merger Rationales

- Generate the scale and profitability necessary for a large exit or even IPO
- Take out costs and reach breakeven more quickly
- Drive a product platform for a cross-sell motion that increases net expansion rates

Prediction #2

Strategics Will Continue to Buy, Just at Lower Multiples

- Strategics face the “innovator’s dilemma” and struggle to get high ROI on their R&D
- Abundance of tech and team options resulting in ample buying opportunity
- Retaining talent is hard, especially with share price declines and underwater options

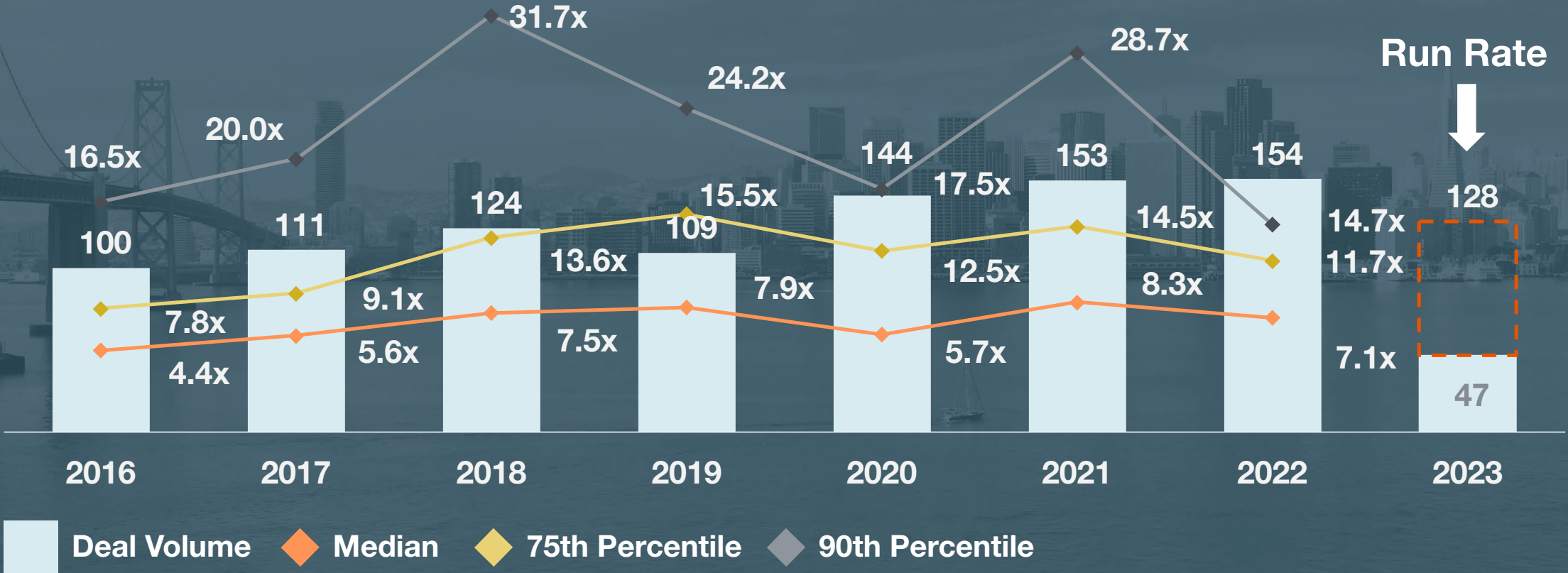


Sources: Capital IQ as of 04/14/2023, CyberSeek 2021-2022
Note: % Filled = Cyber Jobs / Cyber Jobs + Openings
“Peak” defined as 11/01/2021
N = 23 for security, N = 162 for non-security. Non-security limited to public software companies with enterprise value > \$800MM

Context

M&A Multiples Have Declined Relative to Peak

2023 Is Seeing Modest Decline in Deal Volume

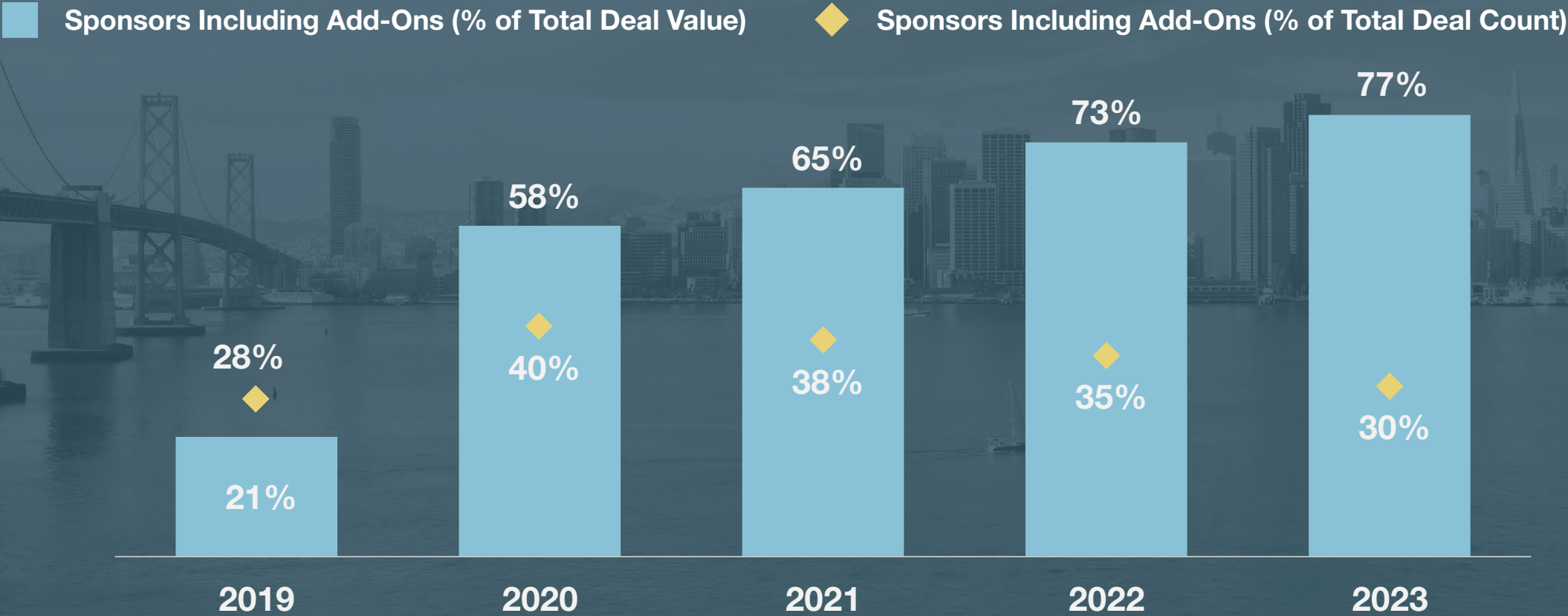


Source: 451 Research as of 04/13/2023

Context

Sponsors Increasingly Active in Platform & Bolt-On M&A

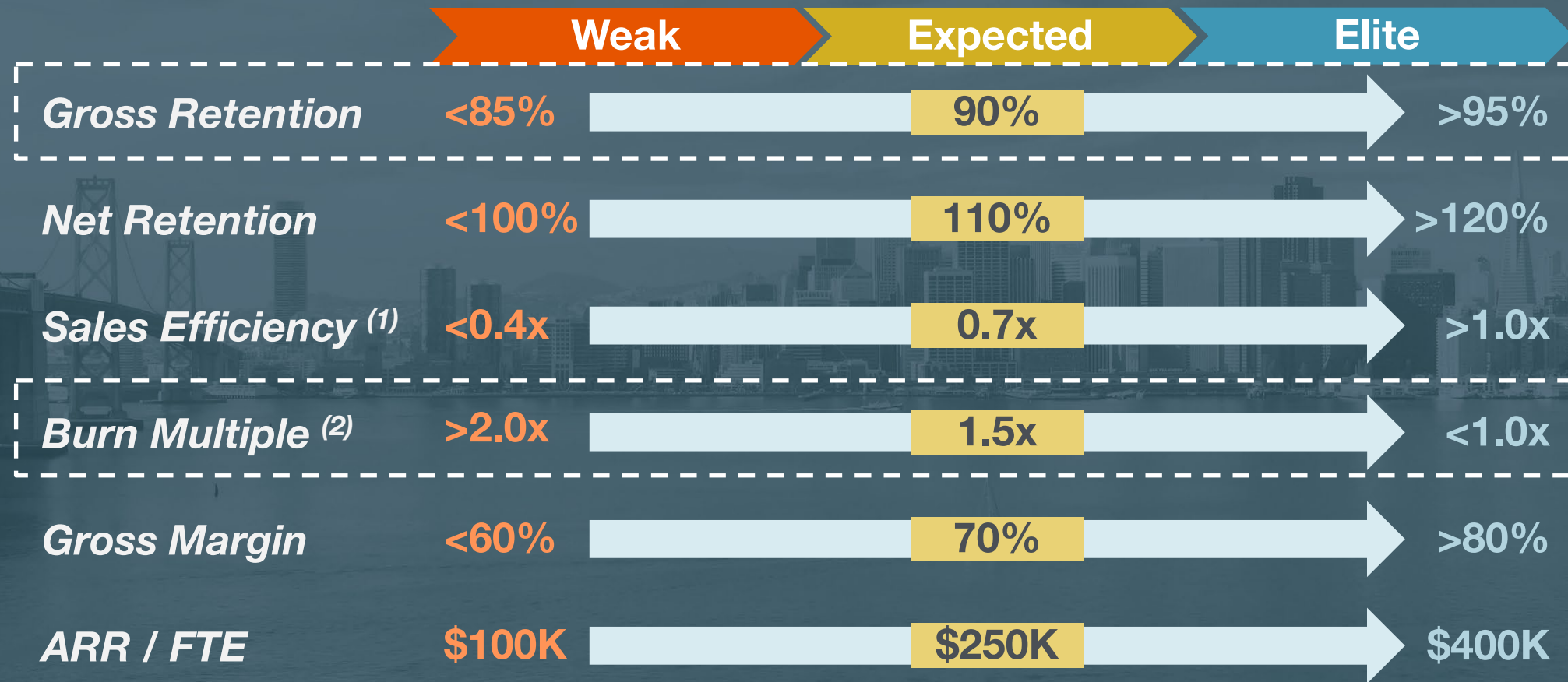
Sponsors Are Active and Doing Larger Deals



Source: 451 Research as of 04/13/2023
Note: Deal count includes deals with undisclosed value

Prediction #3

Great Tech Isn't Enough. Metrics Really Matter



1) Net New ARR / Total S&M
2) Burn Multiple = Adj. uFCF / ARR Change

Prediction #4

IPO Backlog Is Healthy, Yet Profiles May Look Different

- Size considerations: >\$5Bn market cap, which means >\$250MM revenue
- Receptivity to PE-backed vs. VC-backed profiles

Smaller Co's Get a Discount



Mult.-to-Growth Ratios | Rev. Bucketing

Quality of IPO Backlog?

~40

PE-backed unicorns (>\$1Bn) ⁽¹⁾

~50

VC-backed unicorns (>\$1Bn) ⁽¹⁾

Sources: Capital IQ, Pitchbook as of 04/14/2023

N = 185 for software comps

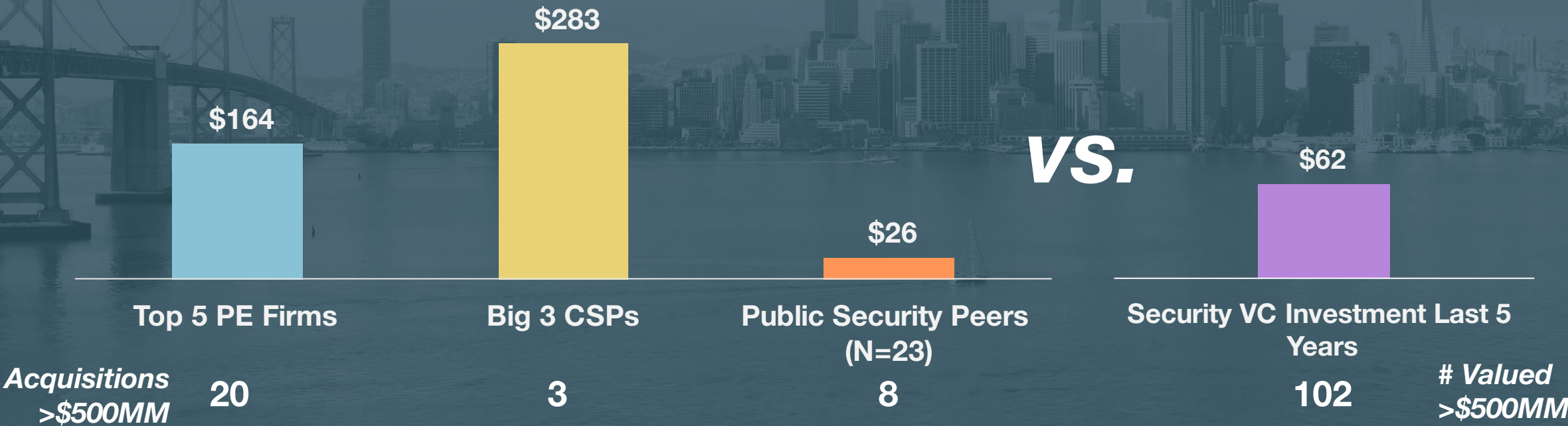
1) Pitchbook, North American / European security companies with \$1Bn+ VC / PE rounds between 4/13/2013 – 4/13/2023, 451 Research

Prediction #5

Strategics Are Unlikely to Do Large Deals Any Time Soon

Dry Powder / Cash on Hand (\$Bn)

Venture Investment (\$Bn)

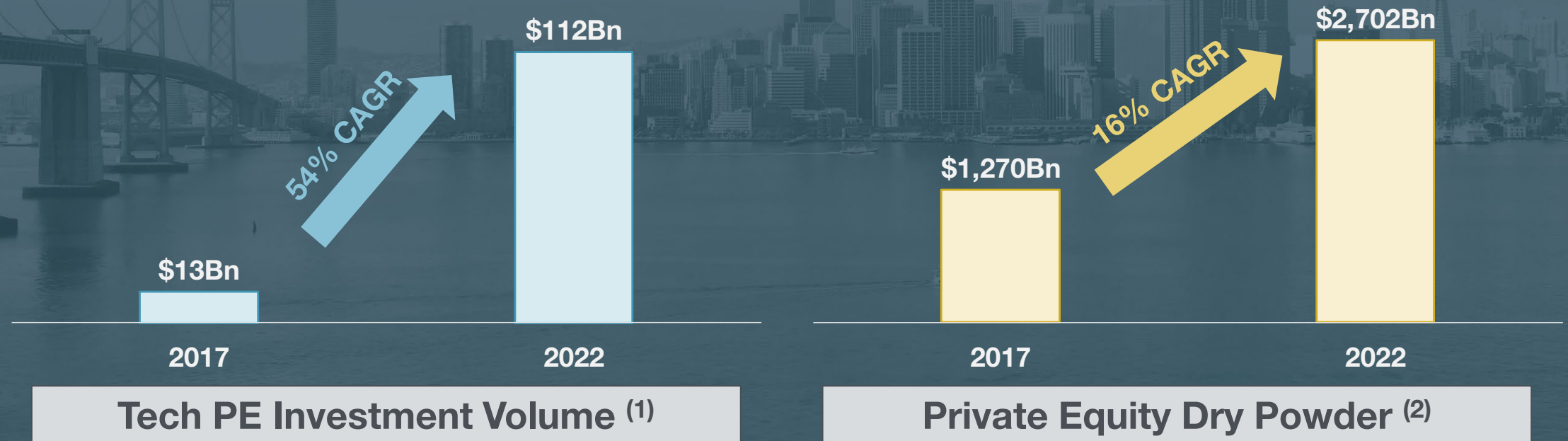


Source: Pitchbook, 451 Research as of 04/14/2023
 Note: Top 5 PE Firms by number of security investments; consists of all funds and investments associated with Thoma Bravo, Francisco Partners, Advent International, KKR, and Insight Partners; CSPs consists of Alphabet, Amazon, and Microsoft; N = 23 for public security peers; Acquisitions in the past 5 years

Prediction #6

Private Equity Will Continue to Absorb Most Assets

- Private Equity deal value was up 1.6x in 2022 versus prior three year average; dry powder levels more than doubled from 2017 to 2022
- Criteria include scale, near term path to profitability, predictability, and competitive differentiation



Sources: 451 Research, Capital IQ, and PwC as of January 2023

1) Includes Technology transactions that are announced and closed

2) As of January of each year

Context

Private Equity's Large Security Presence

Headcount of security companies under PE investment rival the largest pure-play security players



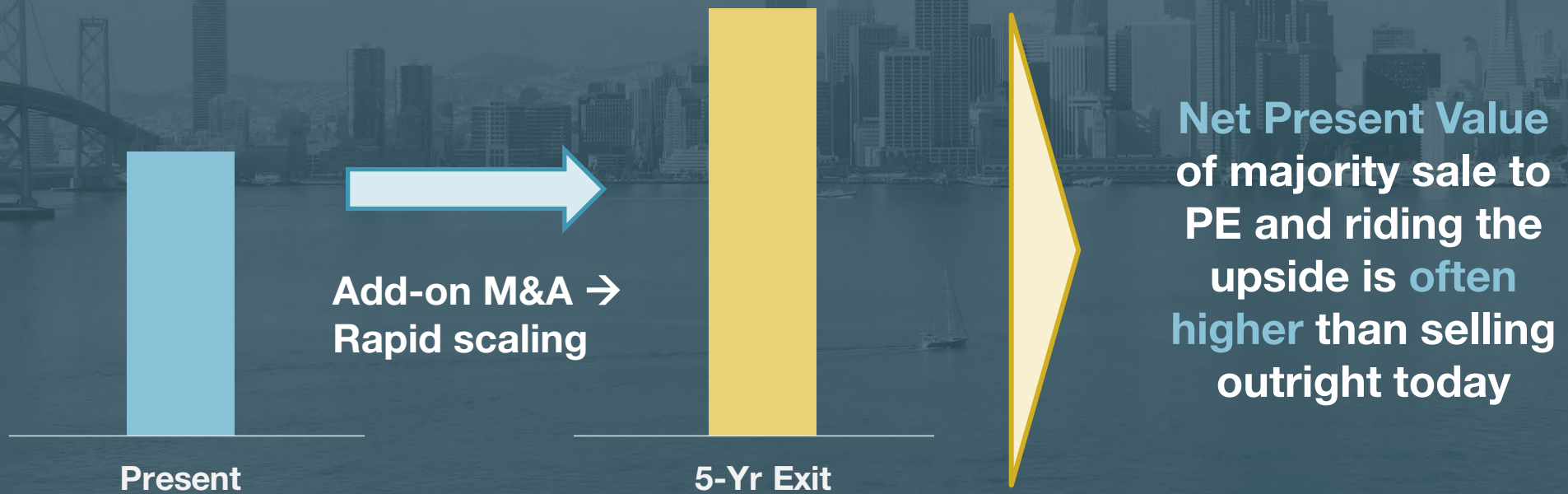
Source: Pitchbook as of 04/13/2023, Capital IQ as of 04/14/2023

1) For PE Portfolio, Employee Count refers to employee count of current security portfolio: Thoma Bravo (AppOmni, Connectwise, Delinea, Exostar, Flexera Software, Grayshift, Illumio, Imperva, Intel 471, LogRhythm, Magnet Forensics, Ping Identity, Proofpoint, SailPoint, Sophos, Venafi); Insight Partners (Veeam, Delinea, OwnBackup, Recorded Future, Sysdig, Abnormal, Armis, Noname Security, Keyfactor, Keeper Security, Semperis, Immersive Labs, Corelight, Corvus, FireMon, CertiK, Island, Detectify, Tigera, Privacera, DNSFilter, PlexTrac, Skyflow, Valimail, Mosyle, Brinqa, Shift5, Dazz, DoControl, Tailscale, Bionic, Inky, Reco, Anjuna, DeepFactor, Ory, Calamu, SaaS Alerts); Francisco Partners (BeyondTrust, Forcepoint, iboss, SonicWall, Checkmarx, GoTo); Permira (Exclusive Networks, McAfee, Mimecast); Crosspoint Capital (AlphaMountain, Cyware, DigiCert, ExtraHop, ForeScout, McAfee, ReversingLabs); Advent International (BigID, Cyware, ForeScout, HYPR, McAfee, Salt Security, Wiz); KKR (Optiv Security, Barracuda Networks, Privy, ReliaQuest, Semperis, NetSPI); TPG (Delinea, Checkmarx, Digital.ai, Onfido, Tanium); Vista Equity Partners (Critical Start, Infoblox, KnowBe4, Menlo Security, Securonix)

Context

Private Equity Is a Viable Option for Founders

- Founders should be more interested in Private Equity than their venture investors want them to be
- PE enables founders to de-risk with secondary and double dip at exit as they scale the business

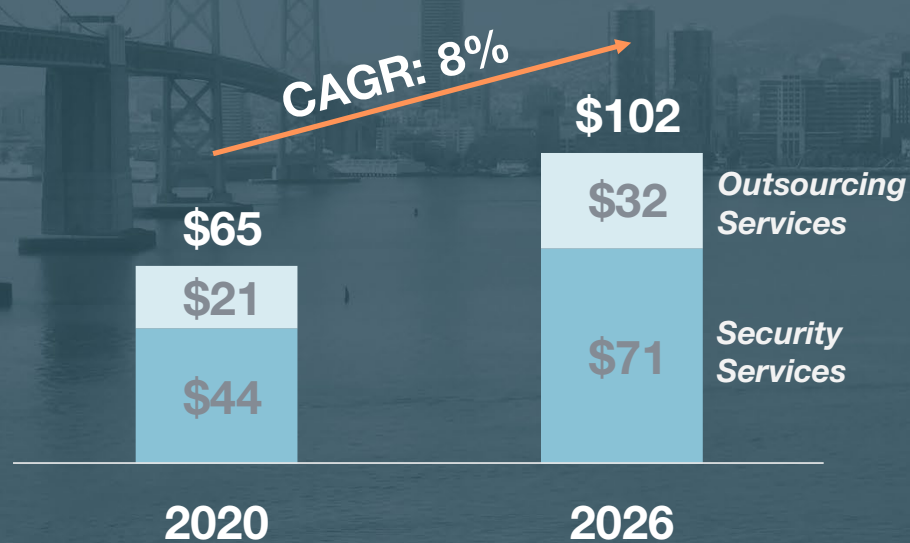


Prediction #7

Security Products Must Be “Managed” to Be Effective

- Rapid growth in MDR indicative of changing buyer trends, which will continue
- Major security players are focusing on services offerings: Google, Palo Alto, Microsoft, Rapid7
- Security is increasingly consumed as a service, and this category is seeing massive growth

Huge and Growing Market ⁽¹⁾



MDR Trends

- Top pure-play MDR vendors ⁽²⁾
 - **\$10Bn** in funding
 - **\$1.2Bn** est. ARR

“ 60% of organizations will be actively using remote threat disruption and containment capabilities delivered directly by MDR providers, up from 30% today ⁽¹⁾ ”

Sources: Gartner, “Information Security and Risk Management Spending by Segment in Current Currency, Worldwide, 2020-2026” Q4 2022 Update

(1) Gartner, “Market Guide for Managed Detection & Response Services”, March 2023







(2) Includes: Arctic Wolf, BlueVoyant, Critical Start, CrowdStrike, Deepwatch, eSentire, Expel, Red Canary, Reliaquest, SecureWorks

Prediction #8

Buyers Want More From Their Existing Offerings

- The market is demanding comprehensive platform solutions as opposed to point solutions
- Palo Alto Networks, Cisco, and CrowdStrike are examples of providers leveraging both organic and inorganic means to expand their capabilities
- Cloud service providers like Google, Microsoft and AWS are following suit

L10Y Security Acquisitions

Platforms		14 Deals	✓ Endpoint
		4 Deals	✓ Network
		17 Deals	✓ Identity
CSPs		2 Deals	✓ SIEM
		7 Deals	✓ Cloud
		9 Deals	✓ SASE
			✓ Managed Security
			✓ Etc.
			✓ Etc.

Prediction #9

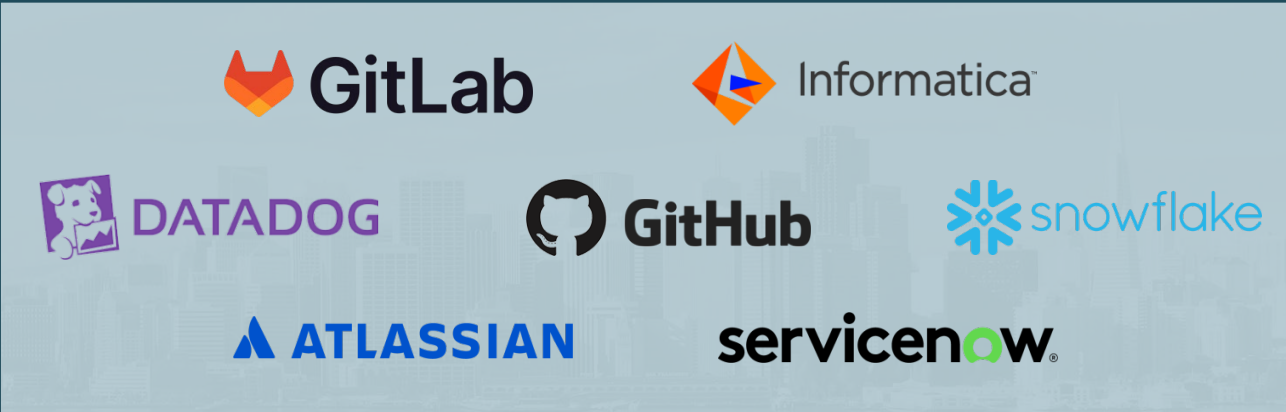
Watch for Hyperscalers and New Entrants

Hyperscalers



amazon web services
Google
Microsoft

Emerging Players



GitLab
Informatica
DATADOG
GitHub
snowflake
ATLASSIAN
servicenow



“ We’re now making a bold move into security. Digital trust is a big thing, and think about encryption, data anonymization, security control, and all these things to protect business critical applications, think of that vault on one platform.

Bill McDermott, CEO, October 2022

Source: Company Press Release, Wall Street Journal as of 04/19/2023
Note: Companies included only for representative purposes

Context

Threat Environment Will Continue to Worsen

- Threat environment is worsening despite increased security investment
- State-sponsored attacks and sophisticated compromises continue to increase against the backdrop of geopolitical tensions and “Great Power” competition

In 2022...

63%

Companies Experienced
Sophisticated Cyberattack

51%

Companies Report Uptick
In Attack Since 2019

*Piper Sandler
CISO Survey,
2023*

“ The proliferation of illegally obtained data gives threat actors ample opportunities to circumvent organizational security measures and controls... The efforts of threat actors—fed by human error, vulnerabilities, and the past victories of their malicious peers—perpetuates an endless cycle.

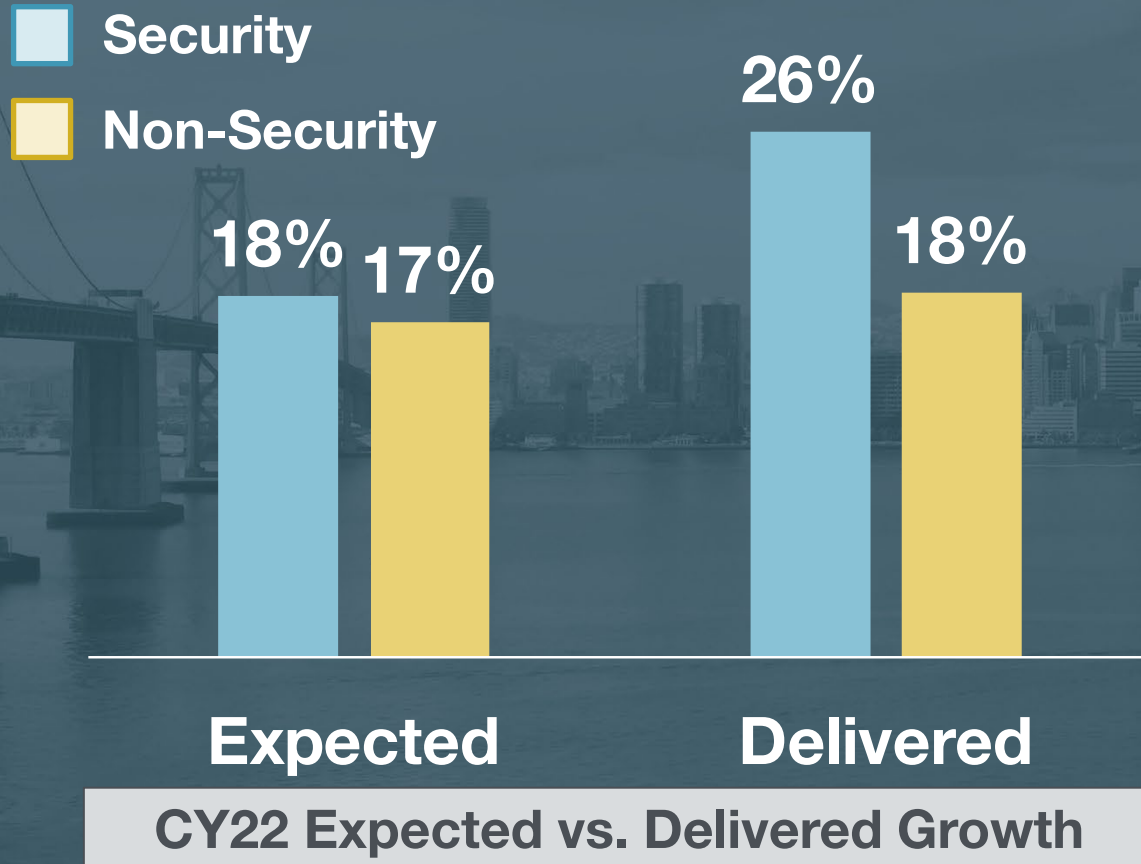
Flashpoint, 2023 State of Cyber Threat Intelligence

“ The physical conflict in Ukraine, and the effects it has had on the cyber threat landscape throughout 2022... underscores the increased convergence of the cyber and geopolitical threat landscape.

Recorded Future, 2022 Annual Report

Prediction #10

Security Will Continue to Exceed Expectations & Grow For the Foreseeable Future



+12%

2022 cybersecurity budget YoY growth ⁽¹⁾

Over 80%

Of CISOs expect their security budget to further increase in 2023 ⁽²⁾

~50%

Avg. company technology budget spent on cybersecurity ⁽²⁾

Source: Capital IQ as of 04/14/2023

"Peak" defined as 11/01/2021

N = 23 for security, N = 162 for non-security. Non-security limited to public software companies with enterprise value > \$800MM

1) Gartner, "Invest Quarterly Sector Outlook: Information Security, 4Q22"

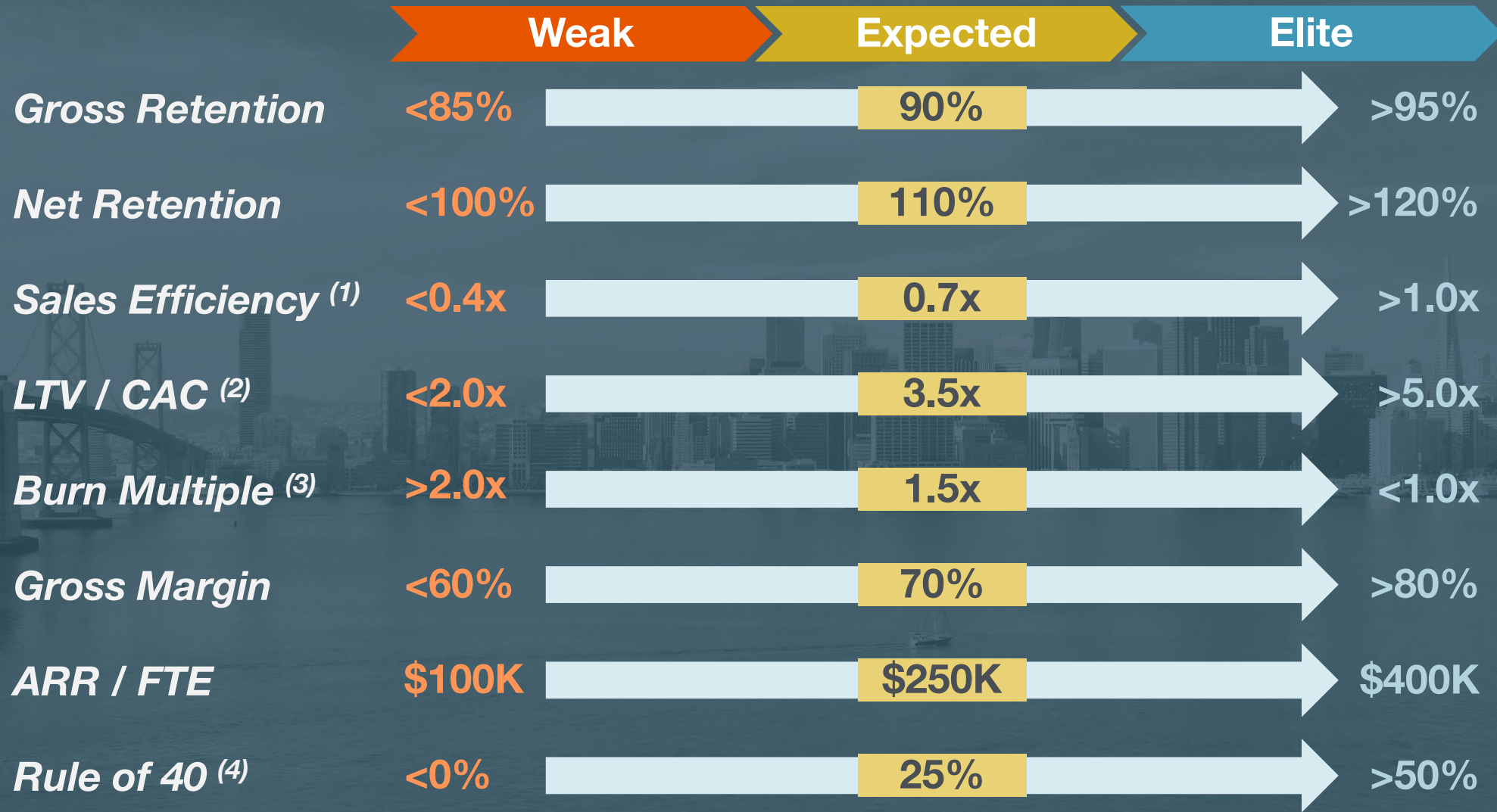
2) Piper Sandler CISO Survey, 2023

Appendix

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Metrics Really Matter



1) Net New ARR / Total S&M

2) LTV to CAC calculated as: Net New ARR * Gross Margin / Gross Churn / Total S&M spend

3) Burn Multiple = FCF / Change in ARR

4) Rule of 40 = Revenue Growth Rate + FCF Margins

**For additional information, or to learn more about
Piper Sandler's Cybersecurity Practice, please contact:**

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SIPC and NYSE**