



# Global Cybersecurity M&A

What are the risks and opportunities in 2022?

Data provided by  PitchBook®

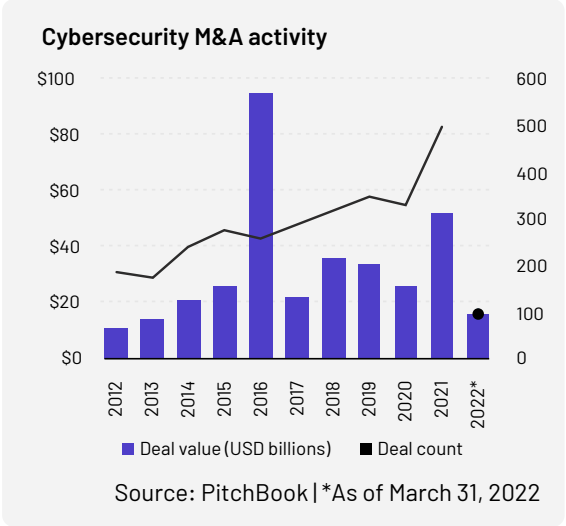
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# Introduction

**Cybersecurity mergers and acquisitions (M&A) activity boomed in 2021, setting a record for deal count and generating over USD 50 billion in deal value – the highest level since 2016, when election interference and cybercrime were brought to the forefront of political and business conversations.**

Amid geopolitical concerns and shaky public equities markets, 2022 began on a volatile note. As the global economy digitizes, cybersecurity is a priority for many corporations and individuals. COVID-19 moved many aspects of daily life online. Remote and hybrid work environments, formed out of necessity during the onset of the pandemic, demand greater collaboration over separate networks, and increased usage of digital health services adds another layer of privacy concerns for patients. Expanded digital capabilities will inevitably create new digital vulnerabilities. Investment in cybersecurity will



likely grow in tandem with new technologies to ensure that growth is supported.

Deal value in Q1 2022 represents 34.6 percent year-over-year (YoY) growth from Q1 2021 and 155.2 percent quarter-over-quarter (QoQ) growth from Q4 2021, demonstrating continued growth in the space during a turbulent quarter for the broader markets.

## The current M&A market

**The median deal size in the space has seen striking variability over the past two decades as the occasional mega-deal skews annual data.** The critical nature of cybersecurity and consolidation between technology companies can result in acquirers offering colossal purchase prices. After plateauing between 2016 and 2018, the median deal size increased 66.6 percent from USD 30 million in 2018 to USD 50 million in 2021.

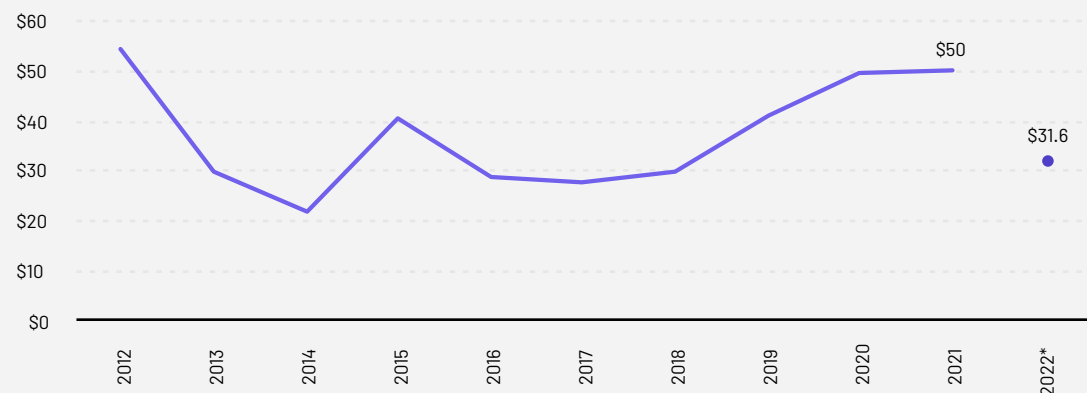
EV/EBITDA multiples have been on the rise since 2017, reaching 19.0x in 2021.<sup>1</sup> Debt usage continued its decline in 2021 and hit its lowest point since 2009 (note low sample sizes due to available data). Increased use of stock for M&A trends is in line with the public markets' strong bull run. With a sample size of just one in Q1 2022, it is too early to tell how deal structures will evolve, but recent market volatility and rising interest rates are sure to have an impact.

[1] Sample sizes are small, with only 16 deals counted toward the 2021 EV/EBITDA.

Historically, most cybersecurity M&A deals have been strategic as opposed to buyouts. However, with private equity (PE) firms flush with cash and the cybersecurity space evolving, buyouts may rise in prominence in the coming years. After the onset of COVID-19, the proportion of M&A categorized as buyout rose to 29.5 percent in 2020, its highest level since 2012. So far, several notable

cybersecurity buyouts have been announced in 2022. An investor group led by PE firm Advent International and Permira bought out McAfee for USD 14 billion in March, and SailPoint Technologies announced in April that it will be acquired by Thoma Bravo for USD 6.1 billion. Another headline-grabbing deal on the horizon is Alphabet's intent to acquire Mandiant for USD 5.4 billion. Mandiant

Median cybersecurity M&A value (USD millions)

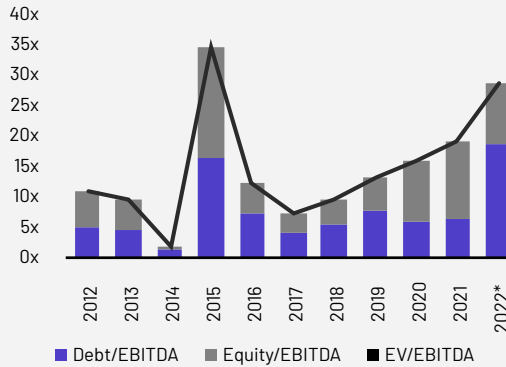


Source: PitchBook | \*As of March 31, 2022

THE GLOBAL CYBERSECURITY M&A ENVIRONMENT 2022

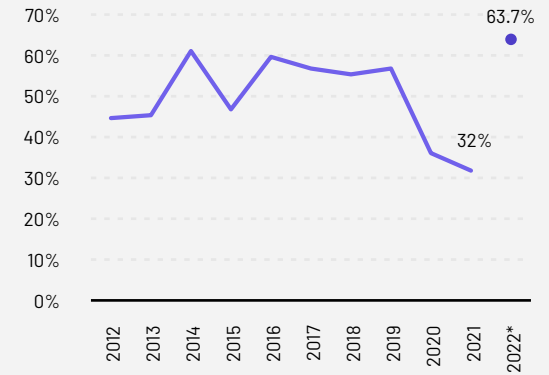
offers threat intelligence services that will be integrated into Google Cloud to offer end-to-end security at scale for users. This acquisition, the second largest in Alphabet's history, would catapult it to dominance in the cybersecurity space. Alphabet was among the most active cybersecurity acquirers over the past six months, with two deals closed. The most acquisitive firms in the space over the past several decades include Cisco Systems, NortonLifeLock, IBM and Microsoft, each completing between 20 and 40 cybersecurity acquisitions. Areas of investment for technology incumbents may be viewed as more sustainable and legitimate than more speculative VC investments, given their experience and resources.

Median cybersecurity M&A multiples



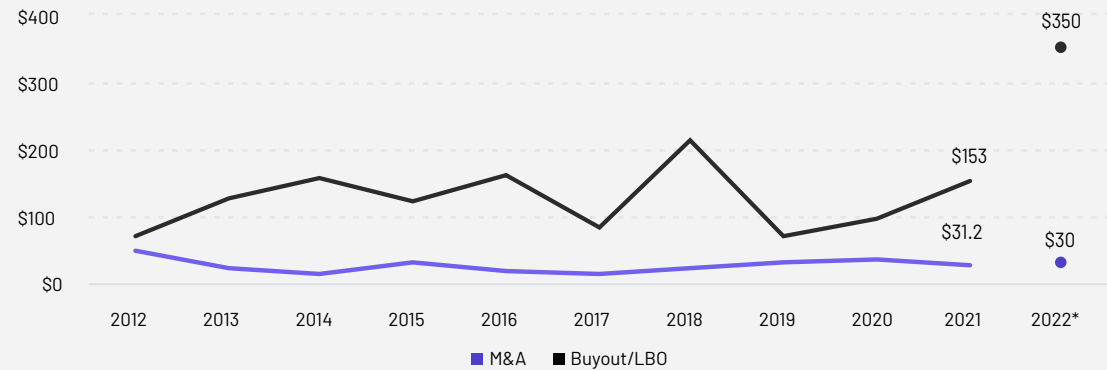
Source: PitchBook | \*As of March 31, 2022

Median debt percentage of cybersecurity M&A



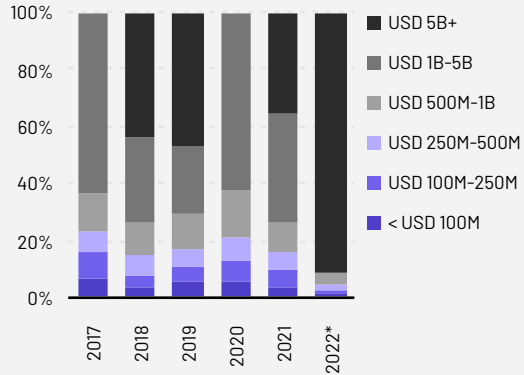
Source: PitchBook | \*As of March 31, 2022

Median cybersecurity M&A value (USD millions) by type



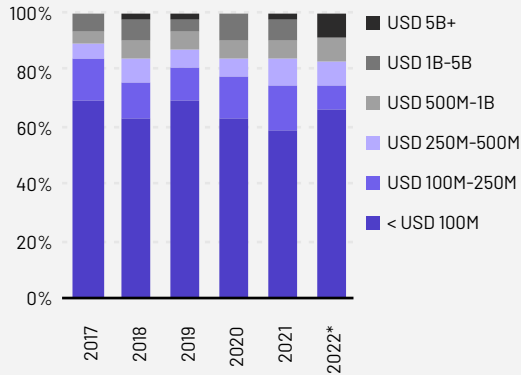
Source: PitchBook | \*As of March 31, 2022  
Note: Sample size is < 30 for certain data points.

Share of cybersecurity M&A value by size bucket



Source: PitchBook | \*As of March 31, 2022

Share of cybersecurity M&A count by size bucket



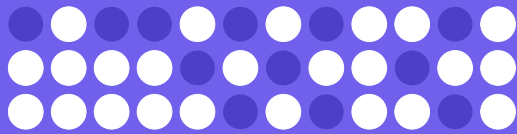
Source: PitchBook | \*As of March 31, 2022

83.3 percent

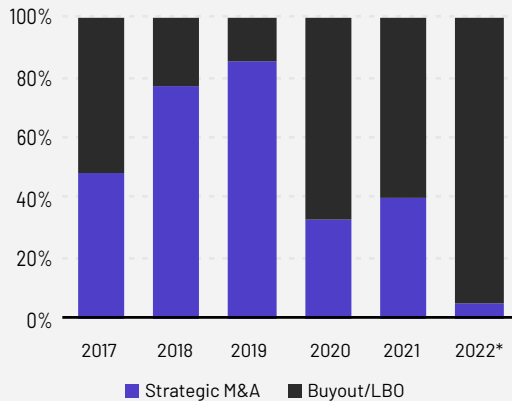
growth in the number of deals over USD 1 billion between 2017 and 2021

93.9 percent

of total deal value in Q1 2022 attributed to buyouts/LBOs versus 61.1 percent in 2021

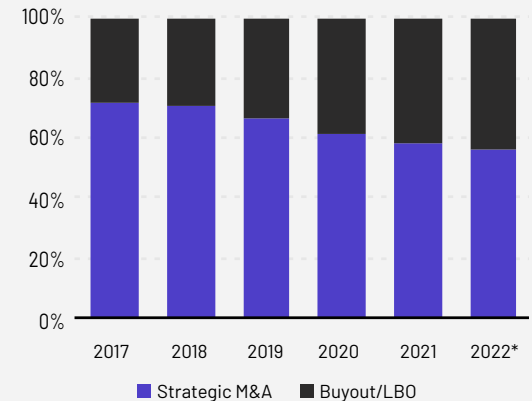


Share of cybersecurity M&A value by type



Source: PitchBook | \*As of March 31, 2022

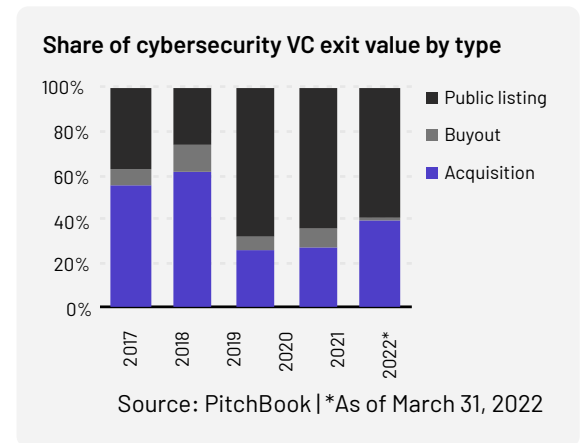
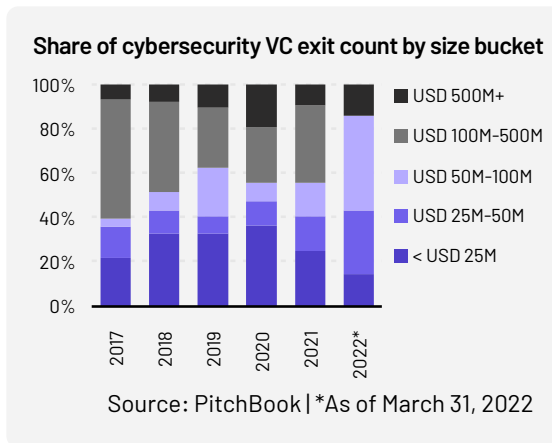
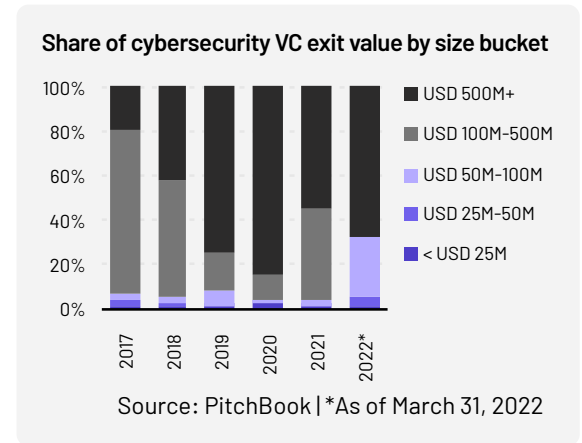
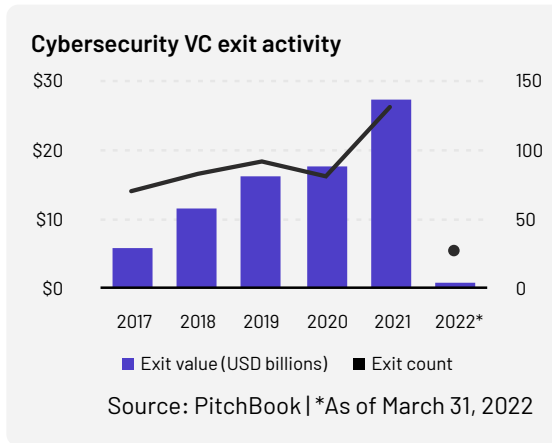
Share of cybersecurity M&A count by type



Source: PitchBook | \*As of March 31, 2022

# Spotlight: Cybersecurity venture exits

In 2021, venture-backed cybersecurity exits rose to a peak of USD 27.4 billion in aggregate value across 133 deals. Record-high company valuations resulted in larger exits, with the number of deals between USD 100 million to USD 500 million doubling. Seven cybersecurity companies took advantage of 2021's hot IPO market, but 2022 is off to a quieter start, with no public listings closed in Q1. In the same period last year, 23 acquisitions and five buyouts were completed, generating a total exit value of USD 784 million. Given the less predictable market conditions, there is decreased appetite for IPOs. Over the past three years, public listings drove the majority of exit value. However, with the IPO market cooling off, this proportion will likely shrink. The number of venture-backed cybersecurity acquisitions grew 57.9 percent between 2020 and 2021, which may result in acquisitions shaping aggregate exit value in future years if the trend continues.



# Regional trends

## 1. North America

Historically, cybersecurity deal activity has been heavily concentrated in North America due to several factors, including the size of its economies and the concentrated presence of MANGA companies in the U.S.,<sup>2</sup> which operate both domestically and abroad. Between 2020 and 2021, deal value in North America grew 108.9 percent, while deal count rose 38.5 percent. Cybersecurity is an omnipresent concern for private markets, particularly in the U.S., with increased urgency surrounding geopolitical issues in Ukraine. In March 2022, the U.S. Securities and Exchange Commission (SEC) proposed new rules that would require public companies to disclose cybersecurity incidents and policies, thus demonstrating how crucial cybersecurity concerns have become for investors and regulators.

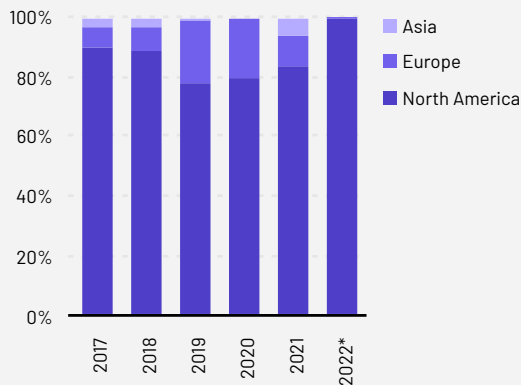
[2] MANGA refers to technology companies Meta, Amazon, Netflix, Google and Apple. Prior to Facebook's rebrand to Meta, the group was commonly referred to as FAANG.

## 2. Europe

Europe consistently ranks second in global cybersecurity M&A activity. The region's deal value plateaued between 2020 and 2021, while deal count grew 75.9 percent. In Q1 2022, the region contended with Russia's invasion of Ukraine, which pressured security teams to prepare for related cyberattacks. The European

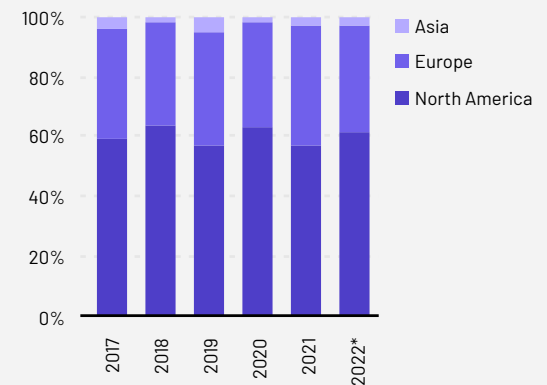
Union committed to invest EUR 1.6 billion into cybersecurity capabilities and deployment across its member states by 2027, along with several other initiatives to strengthen the region's security against cyberattacks. With support from government entities and rising macro pressures, investment activity and consolidation may grow.

Share of cybersecurity M&A value by region



Source: PitchBook | \*As of March 31, 2022

Share of cybersecurity M&A count by region



Source: PitchBook | \*As of March 31, 2022



### 3. Asia

Asia is the target of numerous cybersecurity attacks each year due to the presence of some of the world's largest technology companies, as well as several large and developing economies. M&A activity in the region is historically variable, with occasional large deals completed in China, South Korea and Japan. Asia was the third-largest region by deal value in 2021, with USD 2.9

billion generated across 13 deals. The region will undoubtedly remain a fixture in the industry, with the prominence of its technology companies, large populations, and high rates of internet adoption. While activity so far in 2022 has been sparse, it should be monitored closely given recent geopolitical concerns. Relations between China and Russia are under scrutiny as the war in Ukraine evolves. Both nations operate a form

of sovereign internet – which Russia created as an alternative to the global web that has responded adversely to its actions in Ukraine – thus heightening cybersecurity implications as the war continues.

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## Looking forward

**Heightened by COVID-19, dramatic digital transformations have taken shape over the past few years, and cybersecurity concerns have permeated across industries and regions as a result.** Despite a slight decline in 2020 at the onset of the pandemic, cybersecurity M&A value grew significantly over the past five years. Dealmaking in the space is on course for continued growth as organizations seek to address their vulnerabilities, while threat actors simultaneously advance their strategies. Protecting the interests of shareholders requires

diligent action. Security within deals themselves will also remain an important consideration for deal teams, as data leaks incur both monetary and nonmonetary costs, such as lost productivity and reputational damage.

The cybersecurity space is uniquely positioned in the current macro environment. Global tensions such as the war in Ukraine magnify the need for fortified security systems, as cyber warfare strategies move toward the front lines. Rising interest rates will coincide with sustained market

demand for cybersecurity solutions. Given these factors, companies across the broader market may opt for organic growth over increasingly expensive acquisitions; however, the critical nature of cybersecurity will likely insulate the industry from these effects to a degree. The number of high-profile attacks across a range of industries makes cybersecurity spending a priority for thousands of global management teams. In that sense, it's possible that multiples in the industry will behave independently of the overall economy.



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