

# Cybersecurity Market Update



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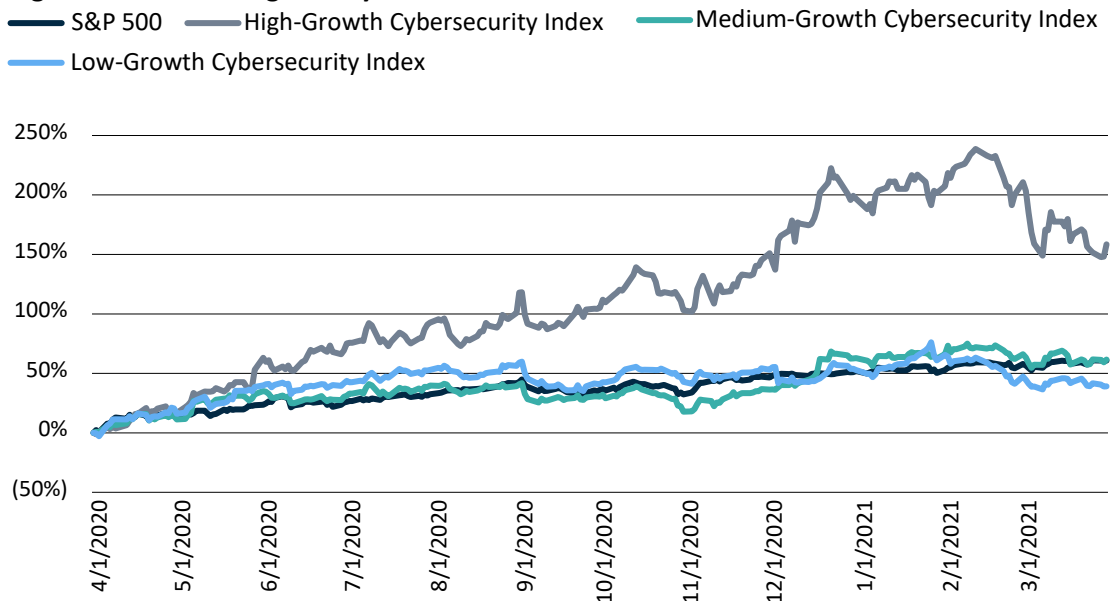
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## KEY TAKEAWAYS FOR Q1 2021

- After an exceptionally strong run from March 2020 through mid-February 2021, stock prices declined for 24 out of 27 public cybersecurity companies during Q1.<sup>1</sup>
- This sector wide drop was likely due to macroeconomic factors, such as increasing interest rates and unsustainably high multiples, as opposed to a cybersecurity-specific catalyst.
- Despite the recent pullback, cybersecurity companies are still trading at healthy valuations and we believe will continue to be strategically important to the broader digital transformation movement.

**Figure 1: LTM Trading History<sup>1</sup>**





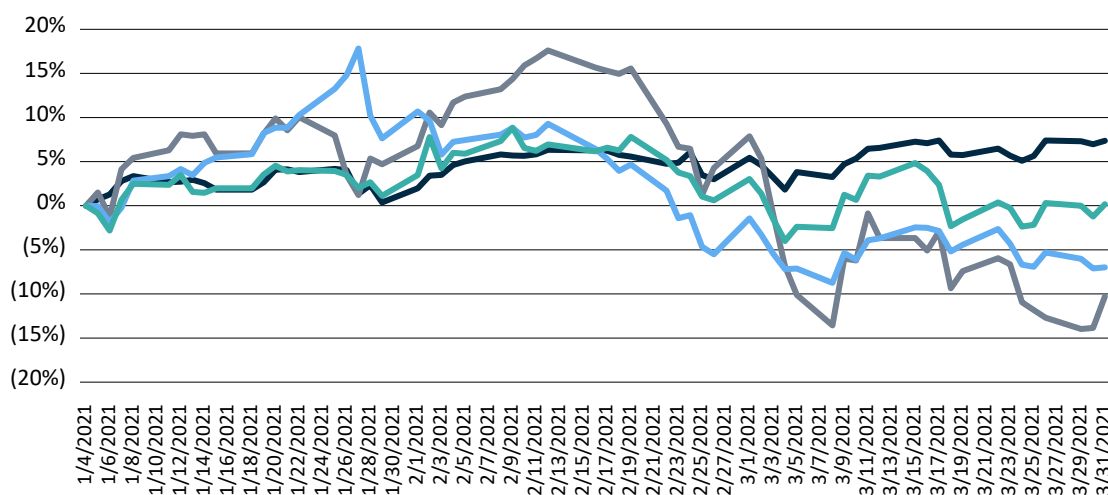
## Public Market Recap

“Light at the end of the tunnel” was the catchphrase of Q1 as COVID-19 cases declined and the vaccine rollout accelerated. Though the true end of the pandemic (however that is ultimately defined) is still a ways away, we believe there are more reasons for optimism now than there have been over the last 14 months. Cybersecurity companies in the public markets also saw a change in sentiment over Q1, although in the opposite direction.



**Figure 2: Q1'21 Trading History<sup>1</sup>**

— S&P 500 — High-Growth Cybersecurity Index — Medium-Growth Cybersecurity Index  
 — Low-Growth Cybersecurity Index



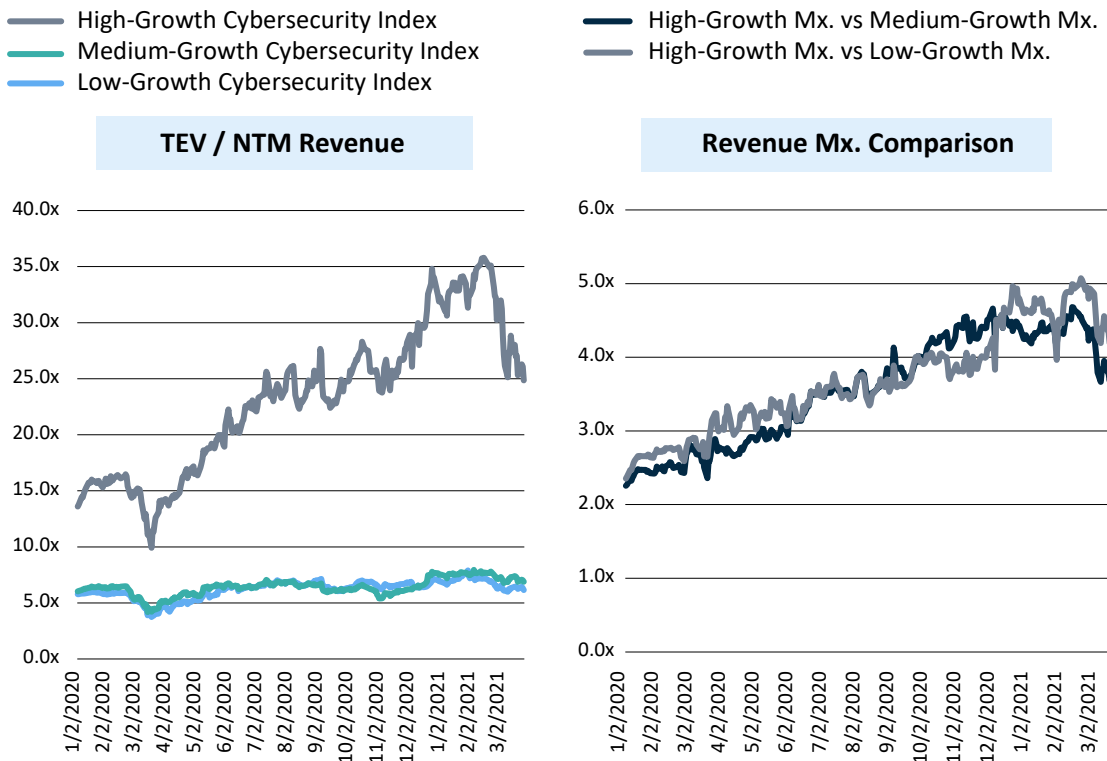
While it is impossible to say what exactly spurred the sell-off from mid-February through the quarter end, we believe this appears to be a minor “reset” to a blazing hot market

Stock prices for 24 out of 27 public cybersecurity companies dropped within the quarter after an impressively strong run from March 2020 through mid-February 2021. Trough to peak, the index of all cybersecurity companies rose 150%+ over 11 months,<sup>1</sup> as both macroeconomic and sector-specific tailwinds supported increased investment. While it is impossible to say what exactly spurred the sell-off from mid-February through the quarter end, we do not believe that there was any fundamental impairment to the cybersecurity sector specifically. Rather, this appears to be a minor “reset” to a blazing hot market.

Multiples for the broader tech landscape were at record highs at the beginning of Q1, when looking back two decades across the public markets.<sup>1</sup> In our view, stimulus efforts and historically low interest rates made these stocks attractive opportunities, keeping multiples buoyed at frothy levels. Specifically, investors rewarded growth and paid large premiums for companies that show steady growth at scale. Within cybersecurity, there was a stark multiple divergence between the high-growth cybersecurity index and the medium/low-growth cybersecurity indices. 15 months ago, high-growth cybersecurity companies (>25% YoY growth) commanded NTM revenue multiples roughly 2.5x those of slower growth cyber-security companies. Since then, that gap widened to 5x.<sup>1</sup>



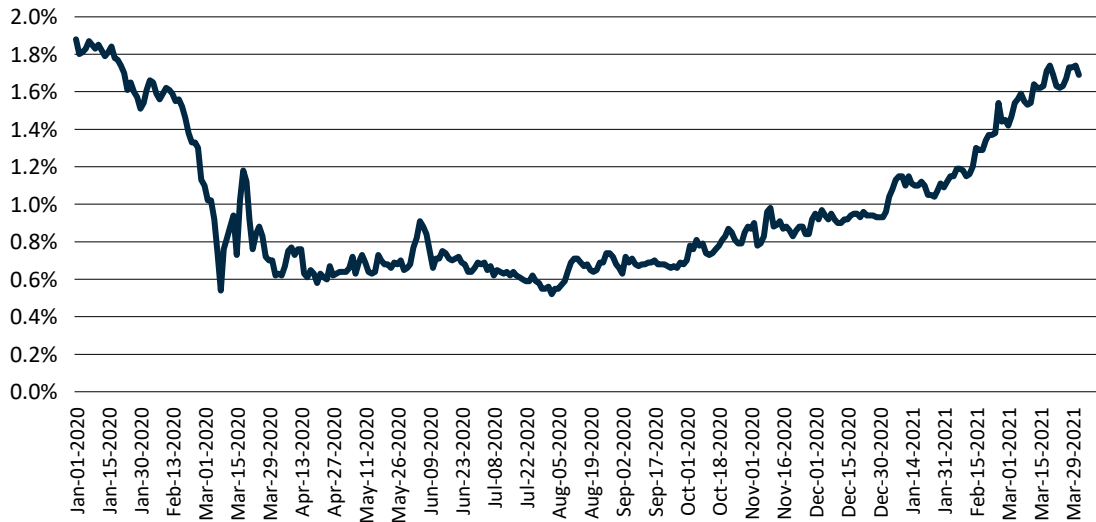
**Figure 3: TEV / NTM Revenue<sup>1</sup>**



**Within cybersecurity, there was a stark multiple divergence between the high-growth cybersecurity index and the medium/low-growth cybersecurity indices**

We believe that the prevailing valuations for high-growth cybersecurity companies (and tech companies broadly) are unsustainable. Recently, however, there was somewhat of a reckoning for these companies as the index's NTM revenue multiple dropped from 36x to 25x. This drop coincided with bond market interest rate movement. After a sharp decline at the beginning of the pandemic, the 10-year treasury rate remained under 1% for the better part of a year. The rate began slowly rising in late summer but accelerated during Q1 of this year, growing from 0.93% to 1.69% within the quarter. Is this connected to the decline in cybersecurity stocks? Unclear, but the timing is noteworthy. The Federal Reserve indicated that they do not plan on raising rates this year,<sup>2</sup> but if the market remains robust and inflation rises, we believe that they could be forced to do so in the future. If interest rates continue to rise and bond markets grow more attractive, we could see a further decline in equity multiples.

**Figure 4: 10-Yr US Treasury Rate<sup>1</sup>**



We believe that the recent decline in cybersecurity stocks is far from a reason to sound the alarm. After all, most companies only had a single-digit percentage decline in stock price and forward revenue multiples are still meaningfully higher than pre-pandemic levels. A reset, like what occurred in Q1, is in our view natural as the markets try to establish what the “new normal” is. Zooming out, the pandemic has exacerbated the need for companies to have robust cybersecurity programs. We believe that the sector will continue to offer exciting investment opportunities as cybersecurity plays a critical role in executing against a successful digital transformation journey. ■

Company Name	Stock Price 3/31/2021	Quarterly % Change	YoY % Change	Market Cap 3/31/2021	Operating Metrics						Trading Metrics		
					LTM Revenue	NTM Revenue	LTM Rev. Growth	LTM Gross Margin	LTM EBITDA	LTM EBITDA Margin	EV / LTM Revenue	EV / NTM Revenue	EV / LTM EBITDA
<b>High Growth (&gt;25%)</b>													
CrowdStrike	\$182.51	(12.3%)	266.0%	\$40,859.7	\$874.4	\$1,320.1	81.6%	73.7%	(\$56.5)	(6.5%)	45.4x	30.1x	NMF
Cloudflare	\$70.26	(5.8%)	311.8%	\$21,698.1	\$431.1	\$592.7	50.2%	76.6%	(\$66.8)	(15.5%)	48.9x	35.6x	NMF
Zscaler	\$171.67	(10.8%)	269.2%	\$23,336.9	\$536.0	\$735.4	48.9%	77.3%	(\$139.1)	(25.9%)	42.6x	31.0x	NMF
Okta	\$220.43	(15.2%)	91.1%	\$28,923.2	\$835.4	\$1,088.8	42.5%	73.9%	(\$178.4)	(21.4%)	33.9x	26.0x	NMF
Sumo Logic	\$18.86	(7.6%)	N/A	\$1,937.0	\$202.6	\$234.1	30.7%	72.1%	(\$73.8)	(36.4%)	7.6x	6.5x	NMF
SailPoint Technologies	\$50.64	1.7%	114.6%	\$4,656.9	\$365.3	\$410.9	26.6%	77.9%	\$24.3	6.6%	12.3x	11.0x	NMF
Rapid7	\$74.61	(9.6%)	33.2%	\$3,931.0	\$411.5	\$493.8	25.9%	70.5%	(\$48.4)	(11.8%)	9.9x	8.3x	NMF
<b>Mean</b>		<b>(8.5%)</b>	<b>181.0%</b>		<b>\$522.3</b>	<b>\$696.5</b>	<b>43.8%</b>	<b>74.6%</b>	<b>(\$77.0)</b>	<b>(15.8%)</b>	<b>28.7x</b>	<b>21.2x</b>	<b>N/A</b>
<b>Median</b>		<b>(9.6%)</b>	<b>190.3%</b>		<b>\$431.1</b>	<b>\$592.7</b>	<b>42.5%</b>	<b>73.9%</b>	<b>(\$66.8)</b>	<b>(15.5%)</b>	<b>33.9x</b>	<b>26.0x</b>	<b>N/A</b>
<b>Medium Growth (10% - 25%)</b>													
Tenable	\$36.19	(9.1%)	51.0%	\$3,764.6	\$440.2	\$515.7	24.2%	82.4%	(\$25.5)	(5.8%)	8.0x	6.8x	NMF
Palo Alto Networks	\$322.06	(10.8%)	39.3%	\$31,318.0	\$3,782.7	\$4,557.0	21.2%	70.0%	\$26.3	0.7%	8.4x	6.9x	NMF
Fortinet	\$184.42	(7.5%)	72.7%	\$30,095.7	\$2,594.4	\$3,056.1	19.9%	78.0%	\$560.4	21.6%	10.9x	9.3x	50.5x
Mimecast	\$40.21	(2.0%)	(7.3%)	\$2,588.8	\$481.7	\$546.7	19.0%	75.3%	\$66.6	13.8%	5.3x	4.7x	38.7x
Proofpoint	\$125.79	(7.2%)	9.6%	\$7,219.6	\$1,050.0	\$1,199.5	18.2%	73.8%	\$0.8	0.1%	7.0x	6.1x	NMF
Varonis Systems	\$51.34	(7.9%)	98.2%	\$5,311.6	\$292.7	\$364.5	15.1%	85.0%	(\$67.9)	(23.2%)	18.1x	14.5x	NMF
Qualys	\$104.78	(0.6%)	25.7%	\$4,108.2	\$363.0	\$400.5	12.9%	78.2%	\$129.5	35.7%	10.2x	9.3x	28.7x
Akamai Technologies	\$101.90	(1.6%)	18.0%	\$16,632.1	\$3,198.1	\$3,408.1	10.5%	64.6%	\$1,021.4	31.9%	5.3x	5.0x	16.6x
McAfee	\$22.74	(10.6%)	N/A	\$3,691.4	\$2,906.0	\$3,027.3	10.3%	69.9%	\$453.0	15.6%	4.3x	4.1x	27.6x
<b>Mean</b>		<b>(6.4%)</b>	<b>68.8%</b>		<b>\$1,678.8</b>	<b>\$1,897.3</b>	<b>16.8%</b>	<b>75.2%</b>	<b>\$240.5</b>	<b>10.0%</b>	<b>8.6x</b>	<b>7.4x</b>	<b>32.4x</b>
<b>Median</b>		<b>(7.5%)</b>	<b>45.1%</b>		<b>\$1,050.0</b>	<b>\$1,199.5</b>	<b>18.2%</b>	<b>75.3%</b>	<b>\$66.6</b>	<b>13.8%</b>	<b>8.0x</b>	<b>6.8x</b>	<b>28.7x</b>
<b>Low Growth (&lt;10%)</b>													
SolarWinds	\$17.44	(3.1%)	(6.0%)	\$5,504.5	\$1,019.2	\$1,042.9	9.3%	90.9%	\$204.6	20.1%	7.0x	6.9x	35.0x
CyberArk Software	\$129.34	(9.1%)	10.9%	\$5,055.7	\$464.4	\$492.3	7.0%	82.3%	\$24.9	5.4%	9.5x	9.0x	NMF
F5 Networks	\$208.62	(0.3%)	49.4%	\$12,861.6	\$2,406.1	\$2,595.7	6.1%	82.0%	\$510.2	21.2%	5.1x	4.7x	24.0x
FireEye	\$19.57	(4.4%)	18.4%	\$4,634.3	\$940.6	\$1,004.4	5.8%	64.5%	(\$51.2)	(5.4%)	5.1x	4.7x	NMF
Check Point Software	\$111.97	(4.0%)	0.9%	\$15,698.2	\$2,064.9	\$2,132.4	3.5%	89.4%	\$924.7	44.8%	5.7x	5.5x	12.7x
Ping Identity	\$21.93	(5.2%)	(9.8%)	\$1,786.1	\$243.6	\$260.9	0.3%	80.3%	(\$8.0)	(3.3%)	7.4x	6.9x	NMF
Radware	\$26.08	(7.9%)	1.2%	\$1,203.9	\$250.0	\$269.9	(0.8%)	82.0%	\$17.2	6.9%	3.4x	3.2x	49.9x
Tufin Software	\$10.50	2.9%	(40.3%)	\$382.7	\$100.8	\$109.6	(2.4%)	79.9%	(\$32.4)	(32.1%)	3.0x	2.8x	NMF
Splunk	\$135.48	(7.3%)	(9.5%)	\$22,196.9	\$2,229.4	\$2,537.2	(5.5%)	75.5%	(\$675.4)	(30.3%)	10.3x	9.1x	NMF
BlackBerry	\$8.43	(6.3%)	31.3%	\$4,738.8	\$893.0	\$795.8	(14.1%)	72.0%	\$102.0	11.4%	5.4x	6.1x	47.5x
OneSpan	\$24.50	(7.4%)	43.1%	\$982.1	\$215.7	\$220.7	(14.9%)	70.6%	\$3.5	1.6%	4.1x	4.0x	NMF
<b>Mean</b>		<b>(4.7%)</b>	<b>8.1%</b>		<b>\$984.3</b>	<b>\$1,042.0</b>	<b>(0.5%)</b>	<b>79.0%</b>	<b>\$92.7</b>	<b>3.7%</b>	<b>6.0x</b>	<b>5.7x</b>	<b>33.8x</b>
<b>Median</b>		<b>(5.2%)</b>	<b>1.2%</b>		<b>\$893.0</b>	<b>\$795.8</b>	<b>0.3%</b>	<b>80.3%</b>	<b>\$17.2</b>	<b>5.4%</b>	<b>5.4x</b>	<b>5.5x</b>	<b>35.0x</b>

Data and analytics provided by S&P Global Market Intelligence. List of public cybersecurity companies compiled by Adams Street. Data sourced March 31, 2021.

1. Source: S&P Global Market Intelligence
2. Source: [www.cnn.com/2021/04/11/powell-says-its-highly-unlikely-the-fed-will-raise-rates-this-year-despite-stronger-economy.html](http://www.cnn.com/2021/04/11/powell-says-its-highly-unlikely-the-fed-will-raise-rates-this-year-despite-stronger-economy.html)

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