



Signal Hill

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IT Security: Q3 2012 M&A Review

IT Security M&A deal activity in Q3 2012 showed solidly positive metric trends and the share price index of large bellwether public IT security firms rose 4.7 percent from the prior quarter's end. M&A deal velocity increased – 33 deals were announced in Q3 2012, an 83 percent increase from Q2 2012 and 10 percent increase from Q3 2011. Total Enterprise Value (EV) jumped 371 percent from Q2 2012 and 298 percent from Q3 2011, to \$2,958M in Q3 2012 (heavily buoyed by Dell's acquisition of Quest Software and Apple's acquisition of AuthenTec). While median announced deal size declined to \$24M, down from \$130M, the median disclosed M&A EV/LTM revenue multiple increased to 3.8x, from 2.5x in Q2 and 2.4x in Q3 2011. The quarter also saw a pick-up in venture financing activity at strengthening valuations.

Figure 1: Quarterly IT Security M&A Deal Analysis, Q3 2011 – Q3 2012

<i>Source: Signal Hill</i>					
	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012
Number of Deals	30	39	33	18	33
% change from prior quarter		30.0%	-15.4%	-45.5%	83.3%
Total Enterprise Value (\$M)	\$989.6	\$2,187.0	\$4,045.3	\$628.0	\$2,957.8
% change from prior quarter		121.0%	85.0%	-84.5%	371.0%
Median Announced Deal Size (\$M)	\$20.0	\$19.8	\$102.5	\$130.0	\$24.0
% change from prior quarter		-1.0%	417.7%	26.8%	-81.5%
Median EV/TTM Revenue Multiple	2.4x	2.0x	4.8x	2.5x	3.8x
% change from prior quarter		-20.0%	58.3%	-92.0%	35.0%

Figure 2: IT Security Public Company Valuation Metrics Q3 2012

<i>Source: Signal Hill</i>	Financial Data						Valuation Data						Price/Earnings		
	% of 52	Q/Q Rev Growth		LTM Margins		EV/Revenues			EV/EBITDA			Multiples			
		Week Hi	YoY	Seq.	Gross	EBITDA	LTM	CY12E	CY13E	LTM	CY12E	CY13E	LTM	CY12E	CY13E
Bellwether	83.69%	11.06%	4.66%	79.13%	20.99%	6.0x	5.6x	4.7x	11.5x	11.8x	10.6x	24.8x	20.0x	17.0x	
SmallCap	68.14%	4.13%	2.60%	73.17%	18.42%	1.7x	1.8x	1.5x	8.9x	11.4x	11.2x	14.6x	14.5x	14.6x	
All Security Companies	77.56%	9.01%	4.57%	77.03%	19.90%	2.1x	2.6x	2.0x	9.9x	11.8x	11.2x	17.4x	16.3x	14.6x	



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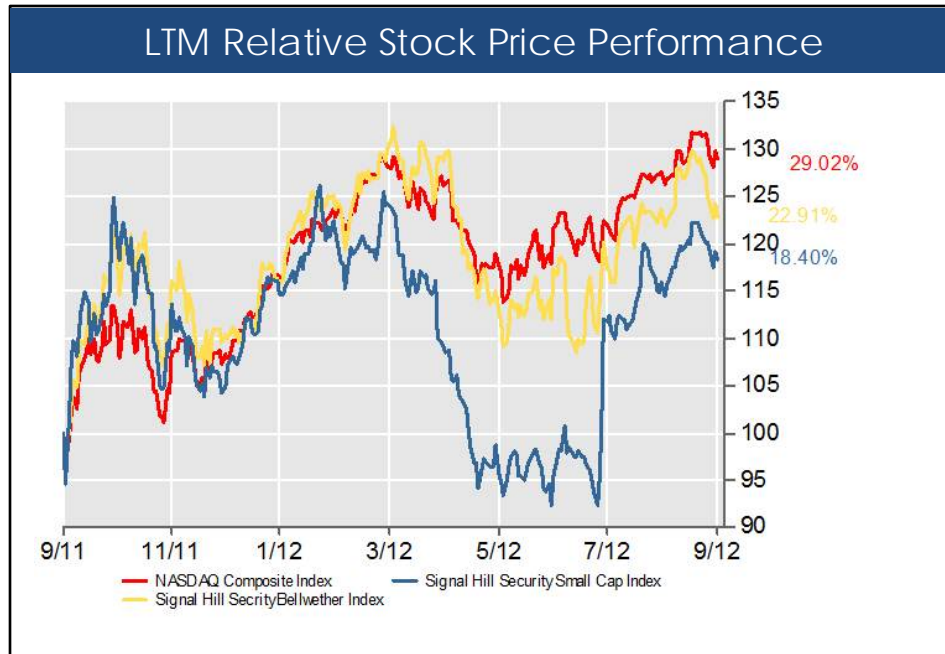
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Figure 3: IT Security 1-Year Relative Stock Price Performance, Q3 2012



LTM Stock Price Performance	
NASDAQ Composite	29.02%
Security Bellwether Index	22.91%
Security Small Cap Index	18.40%

Figure 4: Largest IT Security Revenue Multiples Q3 2012

Target	Buyer	Enterprise Value	Revenue Multiple
Bivio Networks/NetFalcon & Network Content Units	ISC8	\$10.5M	4.8x
AuthenTec, Inc.	Apple, Inc.	\$337.3M	4.7x
BreakingPoint Systems, Inc.	Ixia	\$160.0M	4.4x
Intrepidus Group	NCC Group	\$11.0M	3.3x
Quest Software	Dell, Inc.	\$2,400.0M	2.7x



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Selected IT Security Transactions Q3 2012

<p>Quest Software (QSFT) acquired by Dell, Inc.</p> <p>EV: \$2,400.0M Revenue Multiple: 2.7x</p>	<p>Quest Software, an enterprise management and security software company focused on secure access management, performance monitoring, Windows Server management and database management, was acquired by Dell. This follows two other acquisitions by Dell earlier this year (Wyse and SonicWALL) which were completed after hiring former IBM and CA executive John Swainson as President, Software Group. The deal is expected to form the backbone of Dell's software business, pushing it further into the higher-margin enterprise market. Share purchase price of \$27.70 represents an 11.3 percent premium to the price 20-trading days prior to announcement.</p>
<p>AuthenTec, Inc. (AUTH) acquired by Apple, Inc.</p> <p>EV: \$337.3M Revenue Multiple: 4.7x</p>	<p>AuthenTec, a mobile security authentication company, was acquired by Apple. As the popularity of Apple products has increased, the company finds itself a bigger target for hackers and malicious software attacks. The acquisition is expected to bolster Apple's product security, especially as the company plays a more significant role in today's workplaces. AuthenTec also adds to Apple a significant portfolio of identity and access management related patents. Share purchase price of \$8.42 represents an 84.8 percent premium to the price 20-trading days prior to announcement.</p>
<p>BreakingPoint Systems, Inc. acquired by Ixia</p> <p>EV: \$160.0M Revenue Multiple: 4.4x</p>	<p>BreakingPoint Systems, a leader in network security testing and optimization, was acquired by Ixia, a provider of comprehensive converged IP network validation and network visibility solutions. The addition of BreakingPoint to Ixia's portfolio is expected to ensure business continuity by establishing an end-to-end solution for pre-deployment and production network monitoring, testing and optimization.</p>
<p>Virtuata, Inc. acquired by Cisco Systems, Inc.</p> <p>EV: \$15.0M</p>	<p>Virtuata, a specialist in virtual machine security, was acquired by Cisco Systems. Virtuata will become part of Cisco's data center security group, enabling consistent and enhanced security for virtual machines in data centers and cloud environments, and accelerating deployment of multi-tenant, multi-hypervisor cloud infrastructures.</p>
<p>Sensage, Inc. acquired by KEYW Corporation</p> <p>EV: \$24.0M Revenue Multiple: 2.0x</p>	<p>Sensage, a provider of security information and event management services, as well as event data warehousing software, has been acquired by KEYW Corporation, a cyber-security firm. KEYW expects the acquisition to expand its commercial market and benefit the company's cyber awareness and response platform, Project G.</p>