



# Signal Hill

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## IT Security: Q2 2012 M&A Review

The IT Security sector saw decreases in the number and volume of announced M&A deals during Q2 2012 versus Q1 and the prior-year quarter. The quarter's declines can largely be attributed to the lack of "mega" deal announcements versus recent quarters, including the acquisitions of SonicWall (\$1,300M), Blue Coat (\$900M) and Q1 Labs (\$575M). Overall, Q2 2012 volume and activity are roughly in line with overall historical norms; for the 12-months ended Q2 2012, number of deals is up slightly versus the 12-month period ended Q2 2011. EV/Revenue valuations are also in range with performance over the past two years. Additionally, we believe at least several material deals were not closed as planned in Q2; consequently, an increase in activity for Q3 and Q4 2012 is expected. Publicly traded security stocks have underperformed NASDAQ in the last 12 months, while evidence suggests venture investment in security is on an up-cycle. Areas of ongoing interest include cloud and mobile security, advanced persistent threat protection, unified threat management and event monitoring.

**Figure 1:** Quarterly IT Security M&A Deal Analysis, Q2 2011 – Q2 2012

Source: Signal Hill

	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	LTM Q2 2010	LTM Q2 2011	LTM Q2 2012
Number of Deals	35	30	39	33	18	96	115	120
% change from prior quarter	-	-14.3%	30.0%	-15.4%	-45.5%	-	19.8%	4.3%
Total Enterprise Value (\$M)	\$1,095.8	\$989.6	\$2,187.0	\$4,045.3	\$628.0	\$6,316.3	\$14,058.0	\$7,849.9
% change from prior quarter	-	-9.7%	121.0%	85.0%	-84.5%	-	122.6%	-44.2%
Median Announced Deal Size (\$M)	\$35.0	\$20.0	\$19.8	\$102.5	\$130.0	\$29.5	\$47.2	\$40.0
% change from prior quarter	-	-42.9%	-1.0%	417.7%	26.8%	-	60.0%	-15.3%
Median EV/TTM Revenue Multiple	3.6x	2.4x	2.0x	4.8x	2.5x	2.8x	3.0x	2.6x
% change from prior quarter	-	-50.0%	-20.0%	58.3%	-92.0%	-	6.7%	-15.4%

**Figure 2:** IT Security Public Company Valuation Metrics, Q2 2012

Security Companies		Financial Data				Valuation Data						Price/Earnings		
Pricing Date	% of	Q/Q Rev Growth		LTM Margins		EV/Revenues			EV/EBITDA			Multiples		
06/30/12	52	YoY	Seq.	Gross	EBITDA	LTM	CY12P	CY13P	LTM	CY12P	CY13P	LTM	CY12P	CY13P
Median Metrics	Week Hi													
Bellwether	79%	9%	4%	77%	20%	6.1x	4.0x	3.6x	12.3x	11.2x	10.4x	30.2x	21.2x	17.8x
SmallCap	58%	9%	10%	70%	19%	1.7x	2.0x	1.6x	10.8x	11.5x	10.9x	11.5x	17.5x	14.3x
<b>All Security Companies</b>	<b>67%</b>	<b>9%</b>	<b>5%</b>	<b>75%</b>	<b>20%</b>	<b>2.0x</b>	<b>2.2x</b>	<b>2.0x</b>	<b>11.8x</b>	<b>11.6x</b>	<b>10.8x</b>	<b>23.0x</b>	<b>20.5x</b>	<b>17.2x</b>

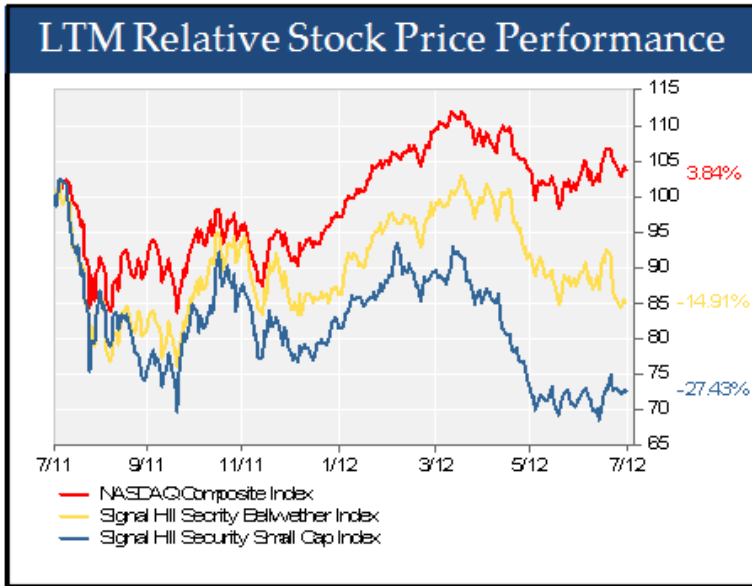
Bellwether: 053800-KR, 4704, CHKP, CTXS, FIRE, FTNT, GTO-FR, JNPR, SYMC, VRSN, WBSN

Small Cap: ABT-CA, ALARK-FR, AUTH, BKYL, CTCH, CYDE, FSC1V-FI, INTZ, SBSW, SFT1V-FI, VDSI, WAVX, ZIXI



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**Figure 3: IT Security 1-Year Relative Stock Price Performance Q2 2012**



LTM Stock Price Performance	
NASDAQ Composite	+3.84%
Security Bellwether Index	-14.91%
Security Small Cap Index	-27.43%

### Selected IT Security Transactions Q2 2012

<p><b>VSS Monitoring was acquired by Danaher Corporation</b></p> <p>EV: \$180.0M            Revenue Multiple: 5.1x</p>	<p>VSS Monitoring optimizes the performance and efficiency of a broad range of network monitoring and security tools deployed by enterprises, governments and service providers, allowing IT professionals to explore and protect even the largest networks better. Danaher is an industrial conglomerate with holdings in the professional, medical, manufacturing and environmental spaces.</p>
<p><b>Anue Systems, Inc. was acquired by Ixia</b></p> <p>EV: \$145.0M            Revenue Multiple: 3.0x</p>	<p>Anue Systems helps network engineers and scientists monitor and test networks. Its patented filtering technology and easy-to-use control panel minimizes network downtime and maximizes return on monitoring investment. Ixia's acquisition of Anue will create a leading player in the network visibility and security market.</p>
<p><b>LogLogic, Inc. was acquired by TIBCO Software, Inc.</b></p> <p>EV: \$130.0M            Revenue Multiple: 3.5x</p>	<p>LogLogic offers scalable log and security management platforms designed for enterprise and the cloud. The acquisition is expected to improve TIBCO's operational intelligence offerings and to provide customers the ability to proactively monitor real-time events, assess risks and address modern IT threats and opportunities associated with Big Data.</p>
<p><b>eEye Digital Security was acquired by BeyondTrust</b></p> <p>Terms not disclosed</p>	<p>eEye Digital Security, vulnerability management provider, offers enterprise software, appliances and services to better help organizations protect their IT assets from critical threats. The acquisition by BeyondTrust, a leader in privilege delegation and authorization management solutions, will offer the market a comprehensive solution for intelligent, context-driven security and compliance.</p>