



M&A DEAL ANALYSIS

“Thoma Bravo Weaves a \$5.3 Billion Tapestry with Darktrace in the Realm of Cybersecurity”

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M&A DEAL ANALYSIS

Acquirer: Thoma Bravo L.P.

Target: Darktrace Plc

Deal value: \$5.3 bn

Sector: Cybersecurity

Type of M&A: LBO

Exit multiple: 32x

Announced date: 26/04/2024

Completed date: TBC



Acquirer details

Thoma Bravo L.P.

Founding year: 2008

Headquarters: San Francisco, California

CEO: Orlando Bravo (2008 - Present)

Number of employees: 212

Market Cap: NA

EV: NA

- LTM Revenues: NA
- LTM EBITDA: NA
- LTM EBITDA margin: NA
- LTM EV/EBITDA: NA
- LTM EV/Sales: NA

(All financial data as of 28/04/2024)

Company industry:

Thoma Bravo is a Private Equity firm focusing on the application, infrastructure and cybersecurity industries. It currently has \$138 billion of Asset under Management.

Target details

Darktrace Lpc

Founding year: 2013

Headquarters: Cambridge, UK

CEO: Poppy Gustafsson (2016 - Present)

Number of employees: 2,200

EV: €5,66 bn

- LTM Revenues: \$616.47 m
- LTM EBITDA: \$107.1 m
- LTM EBITDA margin: 17.4%
- LTM EV/EBITDA: 36.11x
- LTM EV/Sales: 8.03x

(All financial data as of 28/04/2024)

Company industry:

Darktrace is a leading company operating in the cybersecurity industry, which particularly develops machine learning models to detect possible hacking attacks.

Deal Overview

Thoma Bravo has announced its intention to acquire British cybersecurity firm Darktrace for \$7.75 per share in cash, totaling approximately \$5.3 billion. This acquisition, slated to close by the end of 2024 pending shareholder and regulatory approvals, will transition Darktrace from a publicly listed company to a private one.

Darktrace, established in 2013 in Cambridge, UK, entered the London Stock Exchange in 2021 with an initial valuation of around \$2.4 billion. The company boasts a global workforce of over 2,300 employees and an impressive clientele including KPMG, City of Las Vegas, Aston Martin, and ActiveAI McLaren Group. Darktrace has been a pioneer in utilizing artificial intelligence (AI) in cybersecurity, recently introducing the Darktrace Security Platform, designed to autonomously detect and respond to both known and evolving threats across various digital domains.

Thoma Bravo's interest in Darktrace stems from its recognition of the company's leadership in AI-driven cybersecurity solutions. Thoma Bravo aims to leverage its extensive experience in growing enterprise software businesses and executing mergers and acquisitions (M&A) to accelerate Darktrace's growth trajectory. This acquisition reflects Thoma Bravo's strategy to expand its footprint in the cybersecurity market, further solidifying its position as a major player in the industry.

Industry overview

The cybersecurity sector has witnessed a surge in mergers and acquisitions (M&A) activity, driven by increasing cyber threats and the growing demand for advanced security solutions. Thoma Bravo's acquisition of Darktrace is emblematic of this trend, highlighting the attractiveness of cybersecurity companies to private equity investors.

Darktrace's expertise in AI-enabled threat detection has garnered significant attention from major corporations and institutions globally. Its ability to identify and mitigate a wide array of cyber threats, including ransomware attacks and data breaches, has positioned it as a market leader in the cybersecurity space.

The cybersecurity market is characterized by rapid technological advancements and evolving threat landscapes, necessitating innovative solutions to combat sophisticated cyber threats. Darktrace's focus on leveraging AI and machine learning algorithms to enhance threat detection and response capabilities underscores the importance of technological innovation in addressing cybersecurity challenges.

Overall, Thoma Bravo's acquisition of Darktrace underscores the continued growth and significance of the cybersecurity sector in today's digital landscape, as organizations seek robust and proactive security measures to safeguard their digital assets against evolving cyber threats.

Deal rationale

The acquisition of Darktrace by the Private Equity fund Thoma Bravo values the Britain's cybersecurity company at \$5.32 billion.

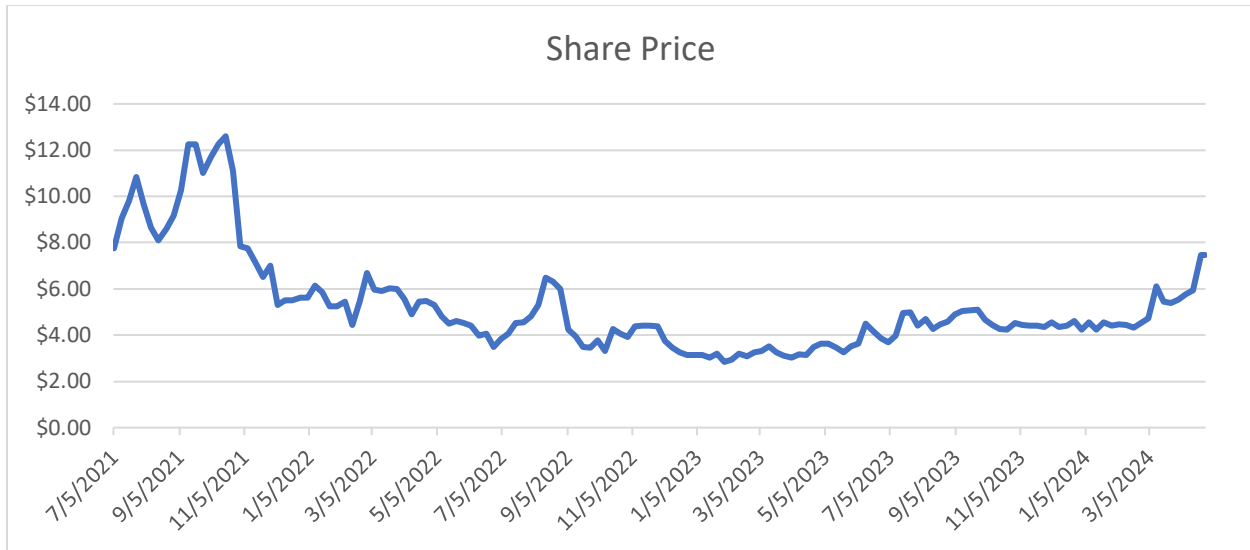
The Chicago-base fund had already discussed the possibility of a take-private operation in 2022, but the two companies could not agree on the terms.

Current undervaluation of Darktrace

Regarding the main rationales behind these operations, one of the most important is the current undervaluation of Darktrace's stock. In fact, compared to the peaks reached in October 2021, when the stock traded above \$12, over the whole 2023 it rarely exceeded \$5 per share. Moreover, despite the strong growth that the company has experienced since its IPO in 2021, the Cambridge-based company's share price lagged behind its competitor.

To this lackluster performance contributed also the short-seller attack from New York' hedge fund Quintessential Capital Management, which published a report about alleged accounting errors at Darktrace. Moreover, this report pointed towards links between Darktrace and HP Autonomy, where the latter was also accused of irregular accounting practices. However, Darktrace disputed this allegation and the EY review of the company performed in 2023 found no material inconsistencies.

Below can be seen the share price of Darktrace since the IPO.



Synergies with other portfolio companies

Another rationale for the acquisition of Darktrace can be found in the investment strategy of the financial sponsor Thoma Bravo. The Private Equity fund, in fact, founded in 1980, has always had a strong focus on the software, applications and cybersecurity sectors. Among the latest deals in the cybersecurity industry, Thoma Bravo has taken part in the acquisition of Sophos in 2019, valued at around \$3.9 billion, of Imperva in 2018, valued at approximately \$2.1 billion, and of Barracuda Networks in 2017, valued at \$1.6 billion. All these three companies are important players in the cybersecurity industry, highlighting the strong interest of the financial sponsor and the huge possibility of leveraging the knowledge and expertise acquired. In addition, Thoma Bravo has also sponsored the creation of the so-called “CyberConsortium”, a platform which brings together many cybersecurity leaders from the public and private sectors. The fund estimates to have about \$45 billion in total enterprise values held in its Cybersecurity portfolio companies.

Possible Add-on Strategy

Finally, the ownership of the financial sponsor could enable Darktrace to expand and grow inorganically through M&A. In fact, Thoma Bravo could ensure the financial resources and capabilities to proceed with operations of consolidation and expansion. In its history, Darktrace has in fact only acquired one company, Cybersprint, a Dutch attack surface management company, for €47.5 million. The acquisition took place in March 2022. As a result, the financial sponsor could have large room to exploit such transactions.

Deal structure

Thoma Bravo has offered \$7.75 per share, for an all-cash transaction. This price presents a 44% premium on the three-month average price of Darktrace. This offer leads to a multiple of approximately 34 times the Adjusted EBITDA as of 31st December 2023. The Board of Darktrace has agreed to the transaction and recommended it to its shareholders.

In addition, Thoma Bravo has already received irrevocable undertakings from other Private Equity firms, namely KKR and Summit Partners, which will back the tender offer and that represent more than 11% of the total shares. However, the private equity firm will need more than 75% of the votes for the deal to go through.

To finance the acquisition, Thoma Bravo will invest equity from its LP investor and has secured two debt sources: a first lien term facility of \$1.685 billion and a second lien term facility of \$0.460 billion.

The deal is set to be completed in the second half of 2024, after even the regulatory approval has been obtained.

Risks and implications

Thoma Bravo's recent announcement of its acquisition of Darktrace has sparked considerable interest and scrutiny among investors, analysts, and industry observers. While the deal holds promise for strategic growth and value creation, it also introduces a spectrum of short-term and long-term risks that merit careful consideration. By examining these risks comprehensively, stakeholders can gain a nuanced understanding of the complexities inherent in the deal and chart a course towards informed decision-making and risk mitigation strategies

Short term

In the immediate aftermath of Thoma Bravo's acquisition announcement, a cascade of short-term risks materializes, potentially impacting the seamless execution of the deal and stakeholders' interests. Market volatility emerges as a primary concern, with investors reacting swiftly to the news, potentially precipitating fluctuations not only in Darktrace's stock price but also in the broader cybersecurity sector and market indices. This volatility could be exacerbated by speculative trading, algorithmic reactions, and macroeconomic factors, amplifying uncertainty for investors and market participants alike. Moreover, the labyrinthine landscape of regulatory approvals introduces a layer of complexity and unpredictability, as the deal navigates through multifaceted

regulatory frameworks across diverse jurisdictions. Delays or hiccups in securing regulatory clearance could impede the transaction timeline, injecting uncertainty into stakeholders' assessments of the deal's viability and potential synergies. The intricate process of integrating Darktrace into Thoma Bravo's existing portfolio poses multifarious challenges, ranging from cultural assimilation and organizational restructuring to operational harmonization and talent retention. Navigating these integration risks demands meticulous planning, effective communication, and proactive mitigation strategies to minimize disruptions and ensure a smooth transition for employees, customers, and partners. Furthermore, safeguarding customer confidence and preserving key talent during the integration phase is paramount, as any perceived vulnerabilities or turbulence could precipitate customer defections and talent attrition, jeopardizing business continuity and eroding shareholder value.

Long term

Peering into the horizon, Darktrace confronts a constellation of long-term risks that could shape its competitive trajectory, technological resilience, and financial sustainability in the dynamic cybersecurity landscape. The specter of technological obsolescence looms large, as the relentless march of innovation propels advancements in artificial intelligence, machine learning, and cybersecurity methodologies, potentially outpacing Darktrace's innovation capabilities and rendering its solutions outdated or ineffective. Sustaining relevance and efficacy amidst this technological arms race requires continuous investment in research and development to enhance the sophistication, adaptability, and scalability of Darktrace's cybersecurity offerings. Moreover, in an ecosystem teeming with established incumbents and nimble startups vying for market share and mindshare, maintaining competitive differentiation and market leadership necessitates a relentless pursuit of innovation, customer-centricity, and strategic agility. Prioritizing customer satisfaction and loyalty assumes paramount importance, as discerning customers demand not only cutting-edge technology but also unparalleled service, support, and value. Furthermore, Darktrace's long-term financial performance hinges on its ability to chart a path to sustainable growth, profitability, and shareholder value creation, navigating potential headwinds such as pricing pressures, market saturation, economic downturns, and regulatory headwinds. Effectively managing these long-term risks demands visionary leadership, operational excellence, and unwavering commitment to delivering value to customers, shareholders, and stakeholders in an ever-evolving cybersecurity landscape.

Market reaction

The announcement of Thoma Bravo's acquisition of Darktrace, a prominent player in the cybersecurity artificial intelligence space, reverberated across financial markets, sparking significant interest and speculation among investors, analysts, and industry observers alike. As one of the largest software investment firms globally, Thoma Bravo's move to acquire Darktrace underscores its strategic intent to expand its footprint in the cybersecurity sector and capitalize on the growing demand for advanced cybersecurity solutions.

In the immediate aftermath of the announcement, the financial markets experienced a flurry of activity, with Darktrace's stock price surging as investors reacted to the news. The offer of an all-cash acquisition at a premium of 20% over Darktrace's closing share price signaled confidence in the company's value and growth potential. This premium not only rewarded existing shareholders but also attracted attention from potential investors seeking exposure to the cybersecurity market.

The cybersecurity sector itself witnessed heightened attention following the announcement, with other companies operating in similar spaces experiencing fluctuations in their stock prices. This reaction reflected broader market sentiments regarding the attractiveness of cybersecurity investments in light of increasing cyber threats and the growing reliance on digital technologies across industries.

Investor sentiment towards the deal was largely positive, with many viewing it as a validation of Darktrace's technology and market position. Thoma Bravo's reputation as a leading investor in the software sector lent credibility to the acquisition and instilled confidence in Darktrace's future growth prospects. Additionally, the cash nature of the deal provided certainty to investors, mitigating concerns related to potential stock-based transactions.

Industry analysts weighed in on the acquisition, offering varying perspectives on its implications for both Darktrace and the broader cybersecurity landscape. Some analysts viewed the deal as a strategic move by Thoma Bravo to capitalize on the burgeoning demand for cybersecurity solutions, particularly those leveraging artificial intelligence and machine learning. Others highlighted the potential synergies between Thoma Bravo's operational expertise and Darktrace's technological capabilities, emphasizing the opportunity for accelerated growth and innovation under Thoma Bravo's ownership.

Looking ahead, the long-term implications of the acquisition are subject to various factors, including regulatory approval, integration efforts, and market dynamics. If

successfully executed, the deal has the potential to reshape the competitive landscape in the cybersecurity sector and position Darktrace as a dominant player in the global market. Moreover, Thoma Bravo's track record of value creation in the software industry bodes well for Darktrace's future trajectory, with opportunities for product expansion, market penetration, and revenue growth on the horizon.

In conclusion, the market reaction to Thoma Bravo's acquisition of Darktrace reflects a convergence of optimism, confidence, and anticipation. The deal not only underscores the value of Darktrace's technology but also highlights the growing importance of cybersecurity in an increasingly digital world. As the transaction progresses, stakeholders will closely monitor developments, seeking insights into how the combined entity will navigate challenges, capitalize on opportunities, and deliver value to shareholders, customers, and the broader cybersecurity ecosystem.

Deal advisor

Thoma Bravo, L.P.:

Financial advisors: Goldman Sachs

Legal advisors: Kirkland & Ellis International LLP

Darktrace:

Financial advisors: Jefferies, Qatalyst Partners

Legal advisors: Latham & Watkins LLP

Sources

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