

Kape Technologies widens its products portfolio with ExpressVPN's acquisition

Introduction

On Monday September 13th, one of the biggest deals in the fast-growing digital privacy space has been closed: Kape Technologies Plc's acquisition of ExpressVPN for \$936m in cash and shares.

Aiming to protect consumers' digital contents, this acquisition will broaden Kape's customer network from almost 3m to over 6m users. According to recent Kape CEO's declarations, this transaction positions the firm to continue to expand its global footprint and products portfolio at a time when digital security and privacy has never been more important.

About Express VPN

ExpressVPN is a service offered by Express VPN International Ltd, a British Virgin Island-based company founded in 2009 by two Wharton University alumni, Peter Burchhardt, a former Microsoft executive, and Dan Pomerantz. Express VPN is one of the major virtual private network providers and it was the first company to transform VPNs from a niche technology into an essential privacy tool.

VPN stands for Virtual Private Network, it is the solution for people to protect their internet contents and keep their identities private online. When connecting to a VPN server, your data flows into an encrypted tunnel that nobody can access. As reported on the firm's website, when using VPN, internet traffic passes through the Internet Service Provider (ISP) but said ISP cannot read the data as it happens when accessing a website without a VPN.

ExpressVPN is present in 160 locations with over 3,000 remote servers. The network includes 94 countries, with the largest numbers of servers located in Brazil, Canada and United States. In 2020 ExpressVPN revenues increased 37% to \$279m.

The recent sale to the UK-listed digital privacy company surely represented a great opportunity for the firm. However, it also created confusion among customers who are worried about their privacy. ExpressVPN reassured them stating that ExpressVPN will remain a separate service from other Kape brands, and that its product will only continue to improve.

About Kape Technologies

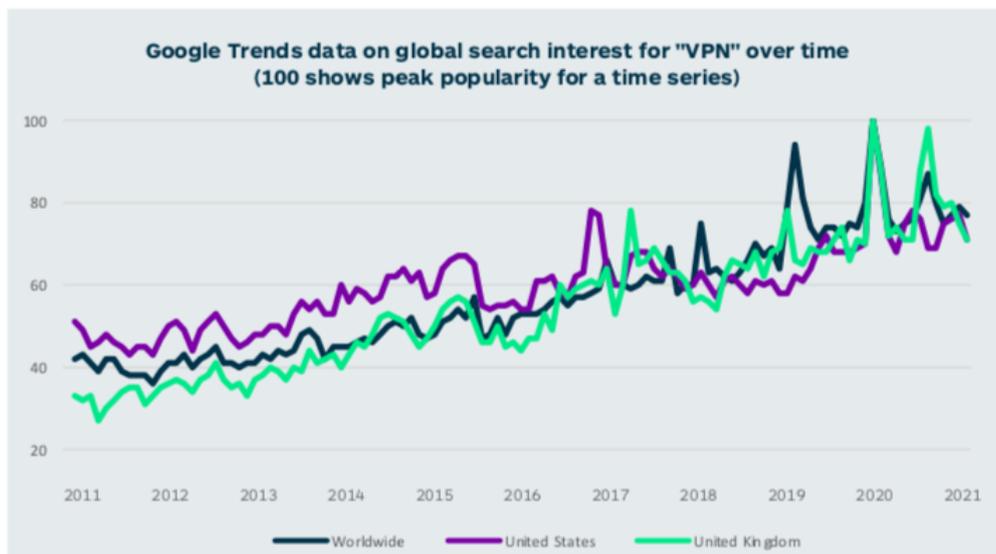
The UK-based company was founded in 2011 under the name of Crossrider, and in late 2012 Teddy Sagi acquired the start-up for \$37m. Sagi is an Israeli businessman, founder of the software company Playtech and owner of London's Camden Market. The firm went public in 2014 through an IPO on LSE and in March 2018 the company changed its name in Kape technologies plc.

As reported by the firm, Kape now develops, acquires, and distributes a variety of leading digital security software products. The company operates in two different segments: Digital Security and Digital Privacy. The first one refers to software as a service (SaaS) products offering security, endpoint protection and personal computer performance. The Digital Privacy area includes virtual private network (VPN) solutions and other privacy SaaS products.

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In July 2018, Kape acquired Intego, creator of internet security software like antiviruses, firewalls and backup software. To extend its presence in the VPN sector, Kape acquired PIA (Private Internet Access) in December 2019, achieving \$6.5m synergies in operations expenses thanks to economies of scale. Moreover, Kape in March 2021 acquired Webselenese, an insight-driven content platform that helps 105m readers make educated decisions by providing reviews and comparisons. Webselenese generated revenue of \$64.5m in 2020 and has grown consistently in the last three years. ExpressVPN represents the latest but not certainly the last acquisition of Kape, whose aim is to continue to grow in this industry.

The pandemic definitely has changed the way people work, leading to an increase in the number of personal devices and consequently a growth of over 40% of disclosed digital security incidents. Giving the fact that market awareness is constantly growing, Kape registered an increase in subscribers from 2.35m to 2.52m at the end of 2019. Finally, its revenues increased 85% to \$122.2m driven by a 31% organic growth in the digital privacy segment.



Source: Kape

Industry analysis

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Few areas of the technology world have grown as quickly as the Virtual Private Network industry in recent years and, following its current trajectory, the VPN industry looks set to achieve massive growth in the years to come. As a result of COVID-19, businesses started to adjust their digital transformation priorities and concentrate on addressing shifts in network needs. VPN connection became more and more important for workers when working remotely and are often the IT team's first stage in enabling a virtual workforce. VPN has also played a central role in unlocking online resources and fighting misinformation, particularly during the pandemic, where some territories with stringent internet laws have used it to smuggle through surveillance initiatives and censorious new web regulations.

The global virtual private network (VPN) market was valued at \$25.41bn in 2019 and is projected to reach \$107.6bn by 2027. Major factors driving the growth of VPN market size are the increase in data security concerns, the rise in advanced and complex cyber threats, and an upsurge in usage of mobile and wireless devices within organizations. Given more and more work transactions are performed by mobile devices, security is becoming a major concern, making mobile VPN technology and other mobile security products considered key components.

As mentioned, the rise in advanced and complex cyber threats is expected to fuel the VPN market size. The Edward Snowden leaks (2014) and Cambridge Analytica scandal (2018) played a major role for VPN, alerting the public to the kinds of data both private companies and government agencies can collect and showing that cybercriminals can easily take advantage of users communicating via hotspots or unsecured networks. The use of VPN and the compliance of mobile endpoint organizational policies help prevent these attacks.

OpenVPN believes the industry will soon enter a period of consolidation, during which consumer VPN services will blend into web browsers. It's possible a similar process of consolidation has already begun with the arrival of Google's new VPN service, available with Google One cloud storage subscriptions. Fellow tech giants Apple and Amazon are also rumored to be preparing VPN offerings of their own, which could plausibly come packaged with Apple One and Prime memberships respectively. While the arrival of Big Tech in the VPN space makes plenty of sense since each company already possesses the necessary infrastructure, whether the move will repair damage to the reputation of these companies where privacy is concerned remains to be seen.

This growth has seen several recent significant transactions in recent years: J2Global, owner of IGN and PCMag, acquired six VPN providers in two years while McAfee bought TunnelBear in 2018. ExpressVPN, by leveraging the access Kape Technology resources, will accelerate its product development delivering more innovative solutions to its users' increasing range of threats.

Deal Structure

UK-headquartered Kape Technologies announced on Monday September 13th that it has acquired ExpressVPN for \$936m. The deal will consist of \$237m in Kape shares to ExpressVPN's co-founders Peter Burchhardt and Dan Pomerantz, which will hand them a 14% stake in the new combined entity, with the remainder \$699m to be paid in cash over the next two years.

Deal rationale

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ExpressVPN's acquisition is part of streak of acquisitions by cybersecurity multinational Kape Technologies which also includes CyberGhost and Private Internet Access, other companies active in the VPN sector. What differentiates this latest transaction, however, is the prominence of the acquisition target, ExpressVPN, one of the largest VPN providers worldwide and the comparably large amount spent. Indeed, the price tag of \$936m is the highest for any VPN firm to-date, and it is considerably more significant than the \$10m Kape paid for CyberGhost in 2017 or the \$95m for Private Internet Access in 2019.

The acquisition thus highlights Kape's commitment to become one of the main players in this field. In addition to the companies mentioned above, the cybersecurity provider also owns VPN firm Zenmate, and the aggregate of these holdings translates to control over a fair share of the VPN market. This puts Kape in an ideal position to capitalise on the expected growth of this industry, which is expected to hit a global market value of \$107.6bn in 2027, up from \$35.4bn in 2020.

ExpressVPN's growth in the past years is even higher than the one expected for the industry. Its CAGR for the last four year stands at 35%, there being an upward trend with last year's CAGR growth rate amounting to 37%. Given this percentage, along with its reputation of being the most innovative VPN provider, it is clear that the firm did not need to rely on being acquired. However, according to ExpressVPN's co-founders Peter Burchhardt and Dan Pomerantz, the sale to Kape will allow the company use the Kape's vast financial resources in order to accelerate product development, deliver even more innovation to their users, and protect them from a wider range of threats.

Regarding Kape, this newest acquisition brings it one step nearer to its stated goal of becoming an end-to-end provider of a privacy-first array of services. Additionally, it expects considerable cross sell opportunities on its platform, along with top line and operational synergies that are projected to enhance customer lifetime value to acquisition cost ratios. Thus, cost savings of \$19m in 2022 and \$30m on an annualised cost basis from 2023 onwards should be generated.

Once the deal is completed, the new group will have over 6m customers, standing to generate revenues of up to \$624m in 2022. As with previous acquisitions, ExpressVPN will retain operational and technical autonomy.

Market reaction

Kape Technologies PLC shareholders seemed to have welcomed the announcement of ExpressVPN's acquisition as shares on the 14th rose more than 13% from 357p to 402p. Since then the stock has further climbed to 421.5p at September 21st day-end.

Advisors

Tiro Capital is the exclusive financial advisor to ExpressVPN while Bryan Cave Leighton Paisner LLP is acting as legal advisor to Kape Technologies and Freshfields Bruckhaus Deringer LLP is acting as legal advisor to ExpressVPN.

TAGS: Virtual Private Network, VPN, Kape, ExpressVPN, Cybersecurity, Threats, Internet, Safety, Technology, work, consolidation

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