

## Investor consortium to acquire Security software company McAfee for \$14bn

### Introduction

McAfee, a global leader in online protection, announced on the 8<sup>th</sup> of November that it had reached an agreement with a consortium of investors, including Advent International Corp., Permira Advisers and Crosspoint Capital Partners, to be acquired after giving effect to McAfee debt payback, in an all-cash transaction valued at about \$12 billion on an equity value basis and over \$14 billion on an enterprise value basis. The Investor Group will buy all outstanding shares of McAfee common stock for \$26.00 per share. The purchase price is a 22.6% premium over McAfee's closing share price of \$21.21 on November 4<sup>th</sup>, the trading day before media reports about a possible sale of McAfee surfaced. McAfee's Chair of the Board, Jon Winkelried, said that McAfee's announcement highlights the company's sustained growth and promise. The company has expanded its product line, improved its go-to-market strategy, and explored smart M&A over the last four years, including the sale of its enterprise division. The acquisition is expected to be completed in the first half of 2022 after the regulatory approval.

### About McAfee

McAfee Corp., founded in 1987, is a global computer security software company based in San Jose, California. McAfee specializes in digital security software for desktops, servers, and, more recently, mobile devices. The founder of the American company was John McAfee, who resigned from the company in 1994. As of February 2011, the company was acquired by Intel for 48\$ a share in a takeover valued at \$7.68bn and became part of the Intel Security division. On September 7<sup>th</sup> 2016, Intel sold a majority stake to TPG and agreed to transform Intel Security into a jointly-owned, independent cybersecurity company under the McAfee brand. In the first half of 2018, the company attempted but failed to sell McAfee's controlling ownership to minority shareholder Thoma Bravo. McAfee further increased its Security Innovation Alliance relationships throughout 2018, adding Atos, CyberX, Fidelis Cybersecurity, Aujas, and Silver Peak to the list. McAfee completed its initial public offering last year raising \$740m, with TPG and Intel remaining as shareholders in the company. McAfee's revenues have been increasing throughout the years: the TTM total revenue reached more than \$3bn with an increase of 9% versus the previous year. Higher net loss reflects Other Non-Operating Income/Expense increase from \$1m to \$301m in 2021. Restructuring and transition charges increased from \$1m to \$35m during this year. The strategy of the company in the next years is to expand its product line, improve its go-to-market strategy, and continue to pursue smart M&A transactions.

### About the Private Equity Led Consortium

The Investor group that acquired McAfee was led by Advent International Corp. and Permira Advisers. Advent International, founded in 1984, is one of the largest global private equity investors. Advent seeks to invest with management teams to build long-term value through revenue and profits growth by investing in well-positioned firms with operational and strategic development potential. Advent doesn't allocate a specific percentage of funds to any area or industry. Indeed it adapts to changing market conditions and deploys capital and resources to the most promising private equity investment opportunities in Advent's target markets. Recently it has been seeking to raise \$25bn for a new flagship vehicle. The group has invested in over 380 private equity transactions in 42 countries and had \$81bn in assets under management as of June 30<sup>th</sup> 2021. Advent has created a globally integrated team of over 245 private equity investment experts across North America, Europe, Latin America, and Asia, with

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15 offices in 12 countries. Business and financial services, healthcare, industrial, retail, consumer and leisure, and technology are the five primary industries in which the firm invests. Permira, founded in 1985, is a British global investment firm which employs over 250 investment professionals across all the globe. The firm advises funds with about €47bn in committed capital and made over 250 private equity investments in four key sectors: Technology, Consumer, Services and Healthcare. Permira has also recently invested \$150m in hiking app AllTrails. Other investors participated in the takeover such as Crosspoint Capital Partners, a private equity based in Menlo Park focused on the cybersecurity, privacy and infrastructure software sectors; Canada Pension Plan, a global investment management organisation that invests the funds of the Canada Pension Plan; GIC Private Limited, a sovereign wealth fund established by the Government of Singapore in 1981 to manage Singapore's foreign reserves and a wholly-owned subsidiary of the Abu Dhabi Investment Authority ("ADIA").

## Industry Overview

In recent years, data breaches and cyberattacks have been on the rise and have become almost commonplace. This April, Colonial Pipeline, which transports 45% the oil consumed on the east coast of the US, was under hacker attack, which forced a slowdown of activity and consequently a surge in fuel price at 3\$ a gallon (the highest level in almost seven years), triggering a panic run at petrol stations in the US. Other companies as Toshiba and Accenture have made headlines for similar issues in May and August, respectively. As a result, the demand for cybersecurity services has been scorching. International Data Corporation estimates that the market for cybersecurity products and services could reach \$174.7bn in 2024, representing a CAGR of 8.1% during 2020-2023. From a geographical perspective, the US is estimated to be the largest market for cybersecurity with \$56.4bn in 2020, followed by China at \$7.9bn and the UK at \$7.6bn. On the other hand, Gartner projects the global cybersecurity spending to reach \$207bn by 2024. However, the latter forecast may be conservative given the exponential rise in cybercrime and the deployment of billions of under-protected Internet of Things (IoT) devices which are all vulnerable to cyberattacks.

The cybersecurity market is fragmented and highly competitive, as it comprises several global and regional players. In particular, McAfee operates both in the consumer and enterprise cybersecurity markets with its Antivirus software and CASB (Cloud Access Security Broker) software and in the network security space through its VPN service. Key competitors are, for instance, NortonLifelock and Avast/AVG (the two have announced a merger deal this July, creating an antivirus "empire"), Kaspersky, Trend Micro, AnchorFree, ExpressVPN, and ProtonVPN. But, in the market, the threat posed by big computer hardware manufacturers and large operating systems providers such as IBM, Dell Technologies, and Microsoft is significant since they have increasingly incorporated cybersecurity functionality into their products and services. Additionally, large cloud platforms, such as Amazon Web Services ("AWS"), Google Cloud, and Microsoft Azure, may expand or commence providing native cybersecurity functionality directly on their platforms. As innovation is key as Big Data or the IoT are reshaping the security trends, such competitors may be able to respond more quickly to new emerging technologies and changes in customer requirements or to devote greater resources to the development of their products. As a result, the firm concentration ratio in the industry is expected to record higher growth in the following years.

As the global pandemic shifted employees to remote working and online activity soared, the need for advancements in software development and online security has become even more crucial and widespread, creating a huge demand cycle for M&A transactions in systems software. So far in 2021, private equity firms have struck a record \$45.67bn worth of deals in the systems software sector, with the McAfee transaction the largest one. Cybersecurity

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valuations have indeed boomed this year, eclipsing other tech sectors: in the first three quarters of the year, the median deal multiple for cybersecurity companies stood at 11.3x trailing-12-month sales, compared to 7x trailing-12-month sales across all tech and telecom deals..

## Deal Structure

Cyber security software company McAfee has agreed to be taken over for \$14bn by a consortium of investors. The letter is led by Advent International Corporation and Permira Advisers LLC, but it also comprises Crosspoint Capital Partners, Canada Pension Plan Investment Board, GIC Private Limited, and a wholly owned subsidiary of the Abu Dhabi Investment Authority (collectively, “the Investor Group”). The transaction is valued at over \$14bn on an enterprise value basis, representing a multiple of 4.6x trailing-12-months revenue, and at approximately \$12bn on an equity value basis, after giving effect to the repayment of McAfee debt. As a result, the Investor Group will acquire all outstanding shares of McAfee common stock for \$26.00 per share in an all-cash transaction, which means they will recognize a premium of approximately 22.6% over McAfee’s closing share price of \$21.21 on November 4<sup>th</sup>, the last trading day prior to media reports regarding a potential sale of McAfee. Upon completion of the transaction, the Investor Group will take ownership of McAfee. As a privately held company, McAfee will continue building on its success and proven track record of growth as a pure-play consumer cybersecurity leader following the sale of McAfee’s Enterprise business, and the associated one-time dividend of \$4.50 per share, to private equity firm Symphony Technology Group for \$4.0bn, which closed on July 27<sup>th</sup> 2021. In addition, McAfee common stock will no longer be listed on any public securities exchange.

## Deal Rationale

Over the recent years, focus on cybersecurity has grown with number of hacks and cyber-attacks rising substantially, and with the pandemic-induced working in distance model exposing even more people and companies than before. In fact, the total sum of data breaches in 2021 has already surpassed the last year’s figures according to The Identity Theft Research Center reports. Consequently, cyber security companies had an opportunity to expand and receive notable investments from private equity firms. Only in April 2021, Thoma Bravo acquired security software vendor Proofpoint for \$12.3bn in a deal worth more than all cybersecurity buyouts from the second half of 2020 combined. In the meantime, being a pioneer in antivirus software development sector, McAfee has been growing and strengthening its main cybersecurity software business. The company achieved net revenue of \$491m in Q3 2021, which constitutes an increase of 24% on YOY basis and gained 640,000 new subscribers to reach the total of over 20 million. In addition, in Q2 McAfee signed a multi-year extended agreement with Samsung to add its software to the devices of South Korean giant.

Bryan Taylor, Head of Advent’s Technology Investment Team described McAfee as “one of the most trusted brands in the essential business of consumer digital protection” with loyal customer base being one of the company’s assets. Furthermore, McAfee has a highly differentiated technology platform what will give an opportunity to the buyers to build on its rich product portfolio to scale the company further and respond to the demand for personalized protection services. To do so the takeover consortium investors will each provide financial and operational resources to the company.

The two leading investors, Advent and Permira, have already shown interest in the consumer cybersecurity market in the past, with the Wall Street Journal reporting in September 2019 that the firms had their eyes on McAfee’s

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rival NortonLifeLock (then known as Symantec's consumer business). However, the possibly \$16bn deal was never finalized. Instead, Advent acquired IoT security vendor Forescout for \$1.4bn in August 2020. Permira on the other hand holds a majority stake in French cyber security firm Exclusive Group since April 2018, which represents its first transaction in the sector. McAfee deal falls into Permira's interest in the niche of the tech industry.

### **Market reaction**

McAfee's share price went down more than 3% at \$25.36 in premarket trading on the day of the announcement, slightly below the offer price, to later reach 0.57% price increase. The acquisition still requires approval from McAfee shareholders and various regulators, and nevertheless is expected to close in the first half of 2022. Interestingly, a "go shop" clause was inserted into the deal, that gives 45 days to find a bidder offering a higher price. Such outcome in this particular case is unlikely, however, the provision can be seen as proof for the shareholders that they received best possible offer.

### **Advisors**

Goldman Sachs and Morgan Stanley are serving as financial advisors to McAfee while the Investor Group chose JP Morgan, BofA Securities, Barclays Capital and Citigroup as financial advisors.

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