

Compliance, Risk & Cybersecurity

Market Monitor

- Market Overview
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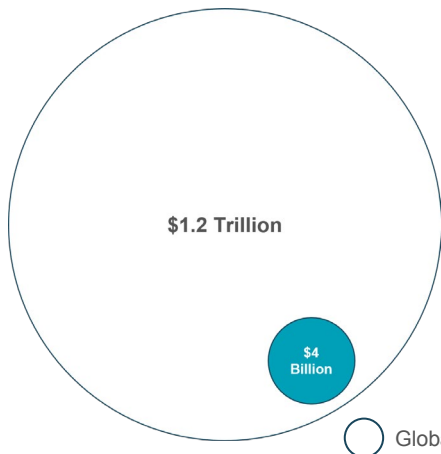
ESG Chaos Primes Sector for M&A

Demand for Environmental, Social and Governance (ESG) consulting services reached new heights in the first half of 2022 as firms bolster their resources in anticipation of regulatory changes by the SEC. The European Union has already called for companies to provide investors with more details on financial risks caused by climate change. On March 21st of this year, the SEC followed suit and issued a proposed rule, The Enhancement and Standardization of Climate-Related Disclosures for Investors, which would standardize climate disclosures for public companies. Now that the period for public comment has closed, after a deadline extension to accommodate feedback from a breadth of affected parties, the SEC nears a turning point. Public and multinational companies are preparing to navigate a sea of compliance guidelines, while consultancies ranging from the Big Four to boutiques position themselves to capitalize on the opportunity. This all sets the stage for growth in ESG consulting services accompanied by heightened M&A activity in the sector.

As we discussed in a [recent blog](#), ESG has entered the mainstream, and M&A is fast becoming a necessary strategy for those looking to build up their ESG capabilities. While the market capitalization for sustainability advisories is minute in comparison to the broader advisory market, the ESG market is expanding to match demand. Deloitte, EY, KPMG and PwC have all announced sizable investments into ESG or sustainability-related practices and are quickly becoming the major players in the space through key partnerships and acquisitions.

An advantage of the Big Four is the number of consultants they can shift to their ESG initiatives. The Big Four's existing audit, regulatory, legal and compliance departments all form a solid foundation for a budding ESG practice, catalyzing competing consultancies to advance their service offerings and headcount via acquisition. Accenture, McKinsey and Riveron have all completed at least one ESG acquisition since the start of the year, contributing to the steady increase in notable deals in the sector.

ESG Markets Heating Up



One consistent thorn in the side for ESG consultancies of all sizes is a lack of experience in any given industry. With the "E" portion of ESG presenting the most immediate regulatory hurdle, companies are seeking industry-specific consultants to navigate current and future environmental guidelines. Companies looking to be ahead of the curve face the challenge of retaining an industry expert in a novel and evolving arena. Given that the environmental vertical presents the longest runway for companies to record and analyze their effect on climate change, many ESG consultants are overwhelmed by the exponential demand for their services and velocity of the space. **Continued on p. 2.**

Source: Bloomberg Law, Mergermarket, Floqast, Quartz

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Sector Spotlight: Security Awareness Training

Calling the Cyber Citizens' Brigade

In the early days of the American experiment, the Federalists and Antifederalists engaged in heavy debate surrounding the best way to defend the young country. The Federalists favored the establishment of a standing army, which was seen as the tyrant's typical tool for ruling from afar, while the Antifederalists preferred the militia, a group of citizen soldiers who banded together when the need arose and left their farms to face down their enemies. The latter approach was idealized as the perfect balance between security and freedom.

In today's enterprise cybersecurity landscape, risk mitigation is becoming everyone's job. The cybersecurity skills gap – the chasm that persists between the demand for qualified cybersecurity professionals and the supply of talent available to meet that demand – remains a critical problem. In a recent Fortinet survey of global executives, 60% of respondents reported that they struggle to recruit cybersecurity talent, while more than 80% have suffered a breach in the past 12 months. One solution is to address the problem at its (frequent) source, namely, employees who lack awareness of cyber threats and fall victim to phishing or other attacks. By implementing security best practices and keeping employees updated on the latest threats, an enterprise is effectively calling on the militia to stop the attackers' advance.

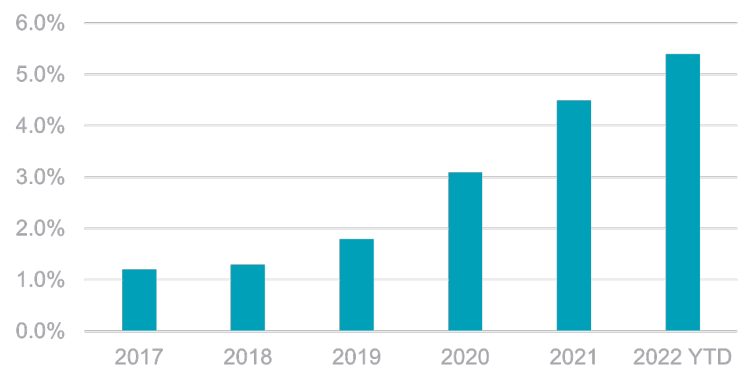
However, as noted by Security Awareness Training leader KnowBe4, phishing attacks continue to evolve in sophistication. Since 80% of data breaches result from human error, computer-based training (CBT) is a solution that allows enterprises to learn where vulnerabilities lie while equipping employees to recognize and avoid increasingly-slick phishing attacks. The market for Security Awareness Training continues to grow, with Cybersecurity Ventures predicting it will reach \$10 billion by 2027.

The militia gave George Washington the time and space to create a professional army, but it was only once that army was in place that his strategic objectives could be attained. Unlike the American Revolutionary War, the conflict in cyberspace is not against a single enemy that can be pinpointed. It can never truly be won, though it can be lost. To prevent this, the skills gap must be addressed from the other end by training enough professionals to meet the growing need for cybersecurity experts without weighing down the effort with unnecessary qualification requirements. Security awareness is an indispensable measure for keeping attackers at bay, but only long enough for the cavalry to arrive.

ESG Chaos Primes Sector for M&A, cont.

As a result, ESG consultancies facing double-sided demand from clients and acquirers are busier than ever. The ability to quickly scale while remaining nimble enough to adapt to pending guidelines, and support their own ESG initiatives internally, is a tough needle for companies to thread. Attracting and retaining talent is a challenge for every industry, as seen most recently through the Great Resignation, but achieving the right mix of professionals to provide the required or necessary expertise compounds the challenge for ESG consultancies. While some firms are generalists and will provide services across the ESG verticals, firms aiming to solidify an industry niche will still need to hire a mix of auditors and specialists. The talent shortage in the ESG sector comes at a critical time for consultancies looking to scale their offerings and enhance their value proposition.

Yearly ESG-Related Announcements

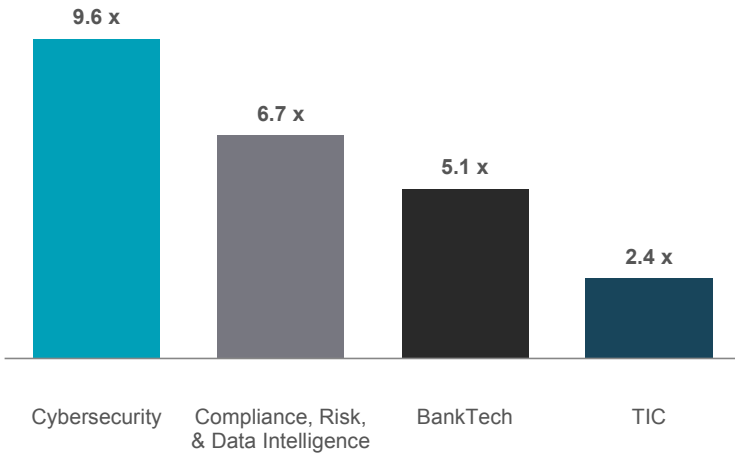


The ESG market is at a fever pitch. Despite a preponderance of frameworks, standards, ratings, rules and regulations, the sector is still in its infancy. ESG firms find they are constantly reacting and repositioning themselves to best advise on rules seemingly written in pencil rather than pen. As guidelines shift from voluntary to mandatory and standards are challenged and perhaps reimaged (e.g., Higg Index), demand for ESG capabilities and expertise will continue to soar. In fact, impending standards and outstripped demand create a perfect storm for M&A markets as acquirers brace for the tidal wave of activity. As Sun Tzu advises in *The Art of War*, "In the midst of chaos, there is also opportunity." Perhaps M&A can bring a cohesiveness to the chaos.

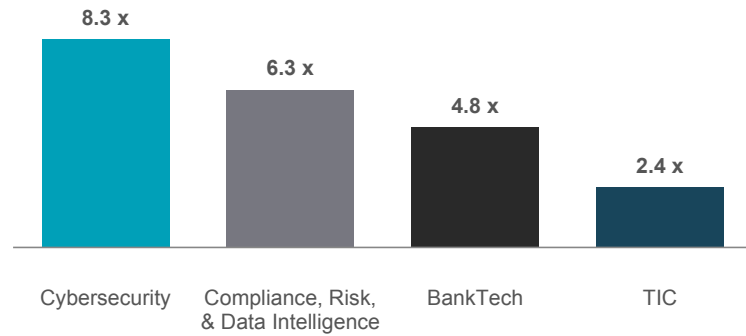
Sources: Fortinet, Cybersecurity Ventures, Bloomberg Law, Mergermarket, Floqast, Quartz

Public Market Performance

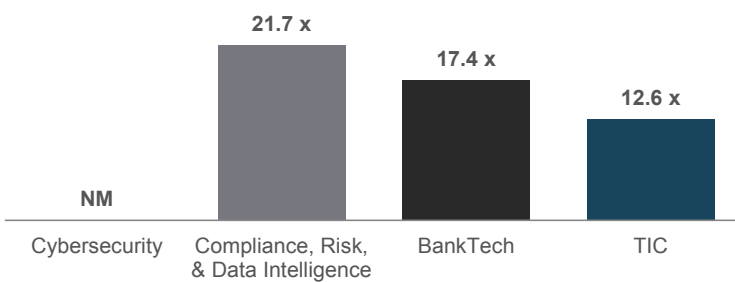
LTM EV / Revenue



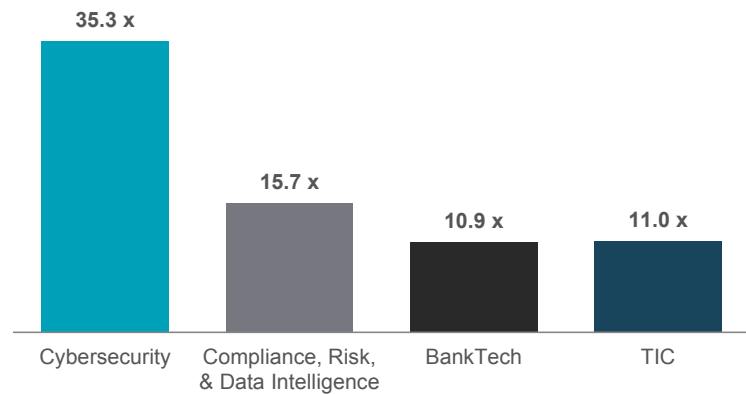
2022E EV / Revenue



LTM EV / EBITDA



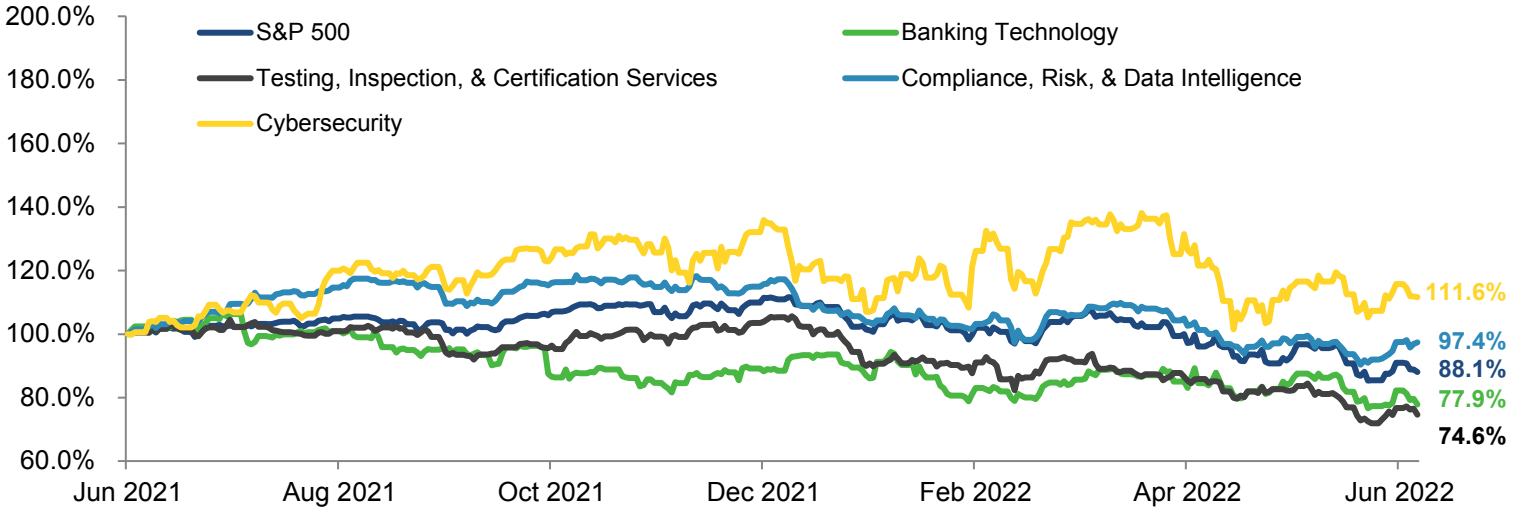
2022E EV / EBITDA



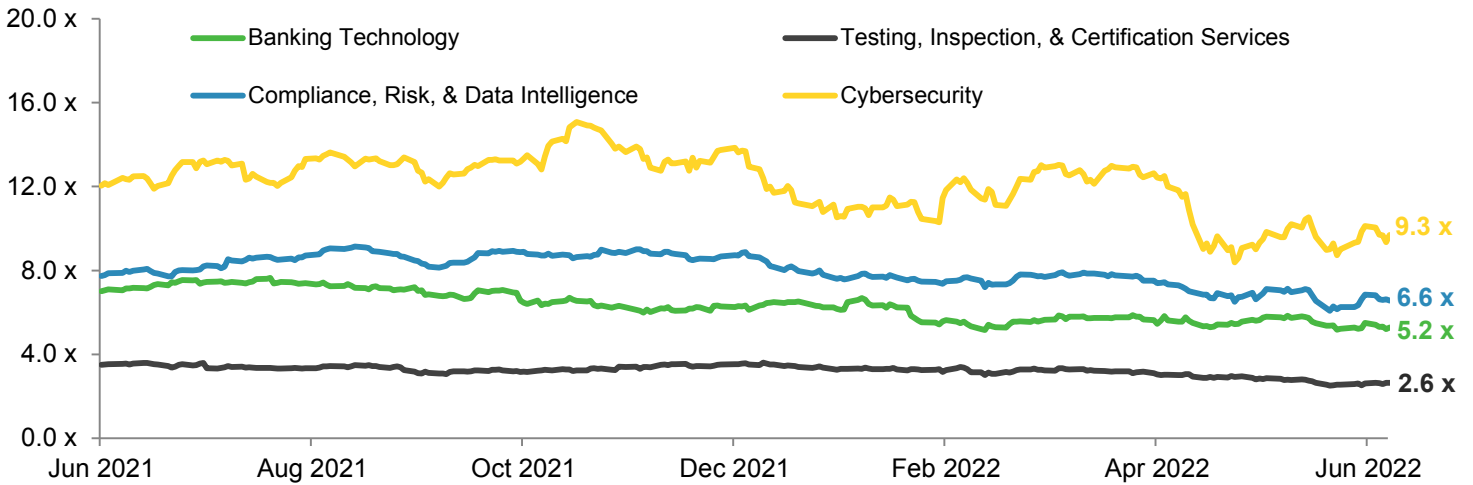
Source: Capital IQ, market data as of 30-Jun-2022

Public Market Performance

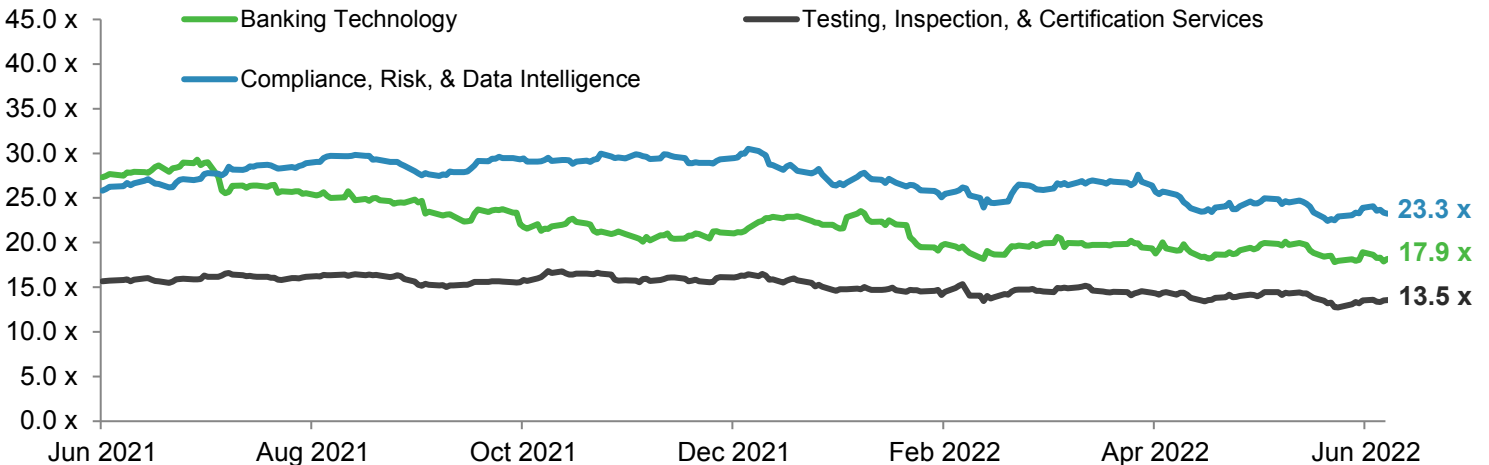
Compliance Market Indices Performance – 1 Year



LTM EV / Revenue Multiple Trend – 3 Years



LTM EV / EBITDA Multiple Trend – 3 Years



Source: Public filings as of 30-Jun-2022, Capital IQ

Note: Multiples charts may differ from Comparable Company Analysis figures due to detailed adjustments made to the Comparable Company Analysis

Public Market Performance

Banking Technology Index

	Closing Price 30-Jun-22	% of 52 Week High	Equity Market Cap	Enterprise Value	EV / Revenue Multiples			EV / EBITDA Multiples			2022E Revenue Growth	2022E EBITDA Margin
					LTM	2022E	2023P	LTM	2022E	2023P		
Banking Technology												
Fidelity	\$91.67	60.2%	\$56,229	\$71,756	5.1x	4.8x	4.5x	17.4x	10.8x	9.9x	6.8%	44.6%
Fiserv	88.97	74.2%	58,395	77,116	4.5	4.7	4.3	13.0	10.9	10.0	3.5%	42.8%
Jack Henry & Associates	180.02	87.7%	13,174	13,391	7.0	6.7	6.2	25.7	20.3	18.8	9.1%	32.9%
High		87.7%	\$58,395	\$77,116	7.0x	6.7x	6.2x	25.7x	20.3x	18.8x	9.1%	44.6%
Median		74.2%	56,229	71,756	5.1	4.8	4.5	17.4	10.9	10.0	6.8%	42.8%
Mean		74.0%	42,599	54,088	5.5	5.4	5.0	18.7	14.0	12.9	6.5%	40.1%
Low		60.2%	13,174	13,391	4.5	4.7	4.3	13.0	10.8	9.9	3.5%	32.9%

Compliance, Risk and Data Intelligence Index

	Closing Price 30-Jun-22	% of 52 Week High	Equity Market Cap	Enterprise Value	EV / Revenue Multiples			EV / EBITDA Multiples			2022E Revenue Growth	2022E EBITDA Margin
					LTM	2022E	2023P	LTM	2022E	2023P		
Compliance, Risk, & Data Intelligence												
Thomson Reuters	\$104.18	85.7%	\$50,976	\$54,135	8.4x	8.1x	7.7x	32.8x	23.4x	19.5x	5.9%	34.7%
Wolters Kluwer	96.76	87.9%	24,662	26,533	4.9	4.9	4.7	16.4	15.4	14.7	NA	31.8%
Avalara	70.60	36.8%	6,611	6,098	8.1	7.0	5.7	NM	NM	NM	26.4%	1.9%
RELX PLC	27.05	90.0%	51,843	58,633	6.0	6.0	5.5	19.6	15.9	14.6	(1.5)%	37.5%
Workiva	65.99	38.1%	3,654	3,506	7.5	6.6	5.5	NM	NM	NM	21.4%	NA
GB Group	4.84	40.8%	1,219	1,328	4.2	3.8	3.3	23.7	15.0	13.2	10.1%	25.4%
High		90.0%	\$51,843	\$58,633	8.4x	8.1x	7.7x	32.8x	23.4x	19.5x	26.4%	37.5%
Median		63.2%	15,637	16,316	6.7	6.3	5.5	21.7	15.7	14.7	10.1%	31.8%
Mean		63.2%	23,161	25,039	6.5	6.1	5.4	23.1	17.4	15.5	12.5%	26.3%
Low		36.8%	1,219	1,328	4.2	3.8	3.3	16.4	15.0	13.2	-1.5%	1.9%

Source: Capital IQ, equity research reports, market data as of 30-Jun-2022

Notes: \$ in millions (except share price), any negative multiples or multiples greater than 40.0x are marked "NM", any negative margin trends are marked "NA"

Multiples may differ slightly from p. 4 due to detailed adjustments

Public Market Performance

Cybersecurity Index

	Closing Price 30-Jun-22	% of 52 Week High	Equity Market Cap	Enterprise Value	EV / Revenue Multiples			EV / EBITDA Multiples			2022E Revenue Growth	2022E EBITDA Margin
					LTM	2022E	2023P	LTM	2022E	2023P		
Cybersecurity												
Fortinet, Inc.	\$56.58	76.1%	\$45,577	\$44,440	12.4x	10.1x	8.4x	NM	NM	29.7x	31.2%	27.7%
KnowBe4, Inc.	15.62	46.4%	2,886	2,588	9.7	7.8	6.2	NM	NM	41.1	36.1%	13.3%
Okta, Inc.	90.40	32.7%	15,472	15,207	9.1	8.4	6.3	NM	NM	NM	42.2%	NM
Palo Alto Networks, Inc.	493.94	77.1%	49,708	49,784	9.6	8.2	6.8	NM	34.1	28.9	26.3%	24.0%
Rapid7, Inc.	66.80	46.1%	4,229	4,819	8.4	7.0	5.7	NM	NM	NM	30.1%	6.0%
SailPoint Technologies	62.68	97.2%	6,253	6,258	13.5	12.0	10.0	NM	NM	NM	24.8%	(4.0)%
Telos Corporation	15.42	36.9%	1,078	973	4.0	3.4	2.7	NM	36.5	23.5	18.4%	9.3%
Tenable Holdings, Inc.	55.07	94.2%	6,658	6,556	12.1	10.3	8.6	NM	NM	NM	19.1%	11.7%
High		97.2%	\$49,708	\$49,784	13.5x	12.0x	10.0x	NA	36.5x	41.1x	42.2%	27.7%
Median		61.3%	6,455	6,407	9.6	8.3	6.5	NA	35.3	29.3	28.2%	11.7%
Mean		63.3%	16,483	16,328	9.9	8.4	6.8	NA	35.3	30.8	28.5%	12.6%
Low		32.7%	1,078	973	4.0	3.4	2.7	NA	34.1	23.5	18.4%	(4.0)%

Testing, Inspection & Certification Index

	Closing Price 30-Jun-22	% of 52 Week High	Equity Market Cap	Enterprise Value	EV / Revenue Multiples			EV / EBITDA Multiples			2022E Revenue Growth	2022E EBITDA Margin
					LTM	2022E	2023P	LTM	2022E	2023P		
Testing, Inspection, and Certification												
Bureau Veritas SA	\$25.56	80.7%	\$11,600	\$12,857	2.3x	2.3x	2.2x	12.6x	11.0x	10.4x	0.4%	20.5%
Intertek Group plc	51.11	72.2%	8,235	9,062	2.4	2.4	2.3	10.7	10.3	9.6	(0.4)%	23.4%
SGS SA	2,288.25	71.0%	17,143	19,555	2.8	2.8	2.6	14.2	11.6	11.0	1.6%	23.7%
High		80.7%	\$17,143	\$19,555	2.8x	2.8x	2.6x	14.2x	11.6x	11.0x	1.6%	23.7%
Median		72.2%	11,600	12,857	2.4	2.4	2.3	12.6	11.0	10.4	0.4%	23.4%
Mean		74.6%	12,326	13,825	2.5	2.5	2.4	12.5	11.0	10.3	0.5%	22.5%
Low		71.0%	8,235	9,062	2.3	2.3	2.2	10.7	10.3	9.6	(0.4)%	20.5%

Source: Capital IQ, equity research reports, market data as of 30-Jun-2022

Notes: \$ in millions (except share price), any negative multiples or multiples greater than 40.0x are marked "NM", any negative margin trends are marked "NA"

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Featured M&A Activity

Date	Target	Buyer/Investor	EV	Summary
1-Jun-22	Digital Shadows	ReliaQuest	\$160M	<ul style="list-style-type: none"> Digital Shadows provides protection from data loss and targeted cyberattacks for organizations
23-May-22	CynergisTek	Clearwater Compliance	\$17.4M	<ul style="list-style-type: none"> CynergisTek provides cybersecurity, privacy and compliance services that identify, measure and test security and privacy risks of organizations
8-Apr-22	Terranova Security	HelpSystems	ND	<ul style="list-style-type: none"> Terranova is a provider of cybersecurity solutions intended to reduce the human risk factor in cyber threats
30-Mar-22	Resolver	Kroll	ND	<ul style="list-style-type: none"> Resolver provides governance, risk and compliance (GRC) software solutions via its GRC application suite
9-Mar-22	Alert Logic	HelpSystems	ND	<ul style="list-style-type: none"> Alert Logic designs and develops security-as-a-service (SaaS) software solutions for customers of hosting and cloud service providers worldwide
8-Mar-22	Mandiant	Google	\$5,400M	<ul style="list-style-type: none"> Mandiant is a pure-play cybersecurity firm that focuses on incident response, threat intelligence, automated response and managed security
7-Mar-22	Schwab Compliance Technologies	MyComplianceOffice	ND	<ul style="list-style-type: none"> Schwab Compliance Technologies designs and develops web-based, on-demand regulatory compliance software automation tools for the financial services industry
1-Mar-22	PCIHIPAA	Rectangle Health	ND	<ul style="list-style-type: none"> PCIHIPAA is a developer of a health risk assessment and compliance platform intended to help medical and dental professionals navigate business complexities
25-Feb-22	ETQ	Hexagon	\$1,200M	<ul style="list-style-type: none"> ETQ develops environmental health and safety (EHS) and compliance management software
9-Feb-22	Tripwire	HelpSystems	\$350M	<ul style="list-style-type: none"> Tripwire develops and provides threat, security and compliance solutions for enterprises, service providers and government agencies to help detect, prevent and respond to cybersecurity threats
24-Jan-22	Verisk 3E	New Mountain Capital	\$950M	<ul style="list-style-type: none"> Verisk 3E provides compliance solutions that empower companies to reduce risk, drive continuous improvement and create new growth opportunities
7-Jan-22	Compliancy Group	Aldrich Capital Partners	ND	<ul style="list-style-type: none"> Compliancy Group provides web-based Health Insurance Portability and Accountability Act (HIPAA) compliance solutions

Source: Public filings as of 30-Jun-2022, Capital IQ, Pitchbook = ClearSight acted as advisor to PCIHIPAA






Featured Private Placements

Date	Target	Buyer/Investor	Capital Raised	Summary
19-May-22	Qmulos	PSG Equity	ND	<ul style="list-style-type: none"> Qmulos is an integrated compliance, security and risk management automation provider that helps organizations improve their security and compliance
21-Apr-22	JupiterOne	Sapphire Ventures	\$70M	<ul style="list-style-type: none"> JupiterOne is a cybersecurity and automation company that develops a cloud-based security compliance and governance platform
7-Apr-22	ThreatLocker	General Atlantic	\$100M	<ul style="list-style-type: none"> ThreatLocker develops enterprise cybersecurity tools for servers and endpoints to prevent unauthorized software intrusions
3-Apr-22	Abnormal	Insight Venture Management	\$209M	<ul style="list-style-type: none"> Abnormal is a developer of a cloud email security platform designed to prevent cyber crimes
22-Feb-22	RegScale	Virginia Venture Partners	ND	<ul style="list-style-type: none"> RegScale develops compliance automation software intended to help organizations comply in real-time with multiple compliance requirements
18-Feb-22	Snappt	Insight Venture Management	\$100M	<ul style="list-style-type: none"> Snappt develops an artificial intelligence-based fraud detection software for the real estate industry
14-Feb-22	Theta Lake	Battery Ventures	\$50M	<ul style="list-style-type: none"> Theta Lake develops compliance technology designed for present-day collaboration platforms
25-Jan-22	BigID	Splunk Ventures	ND	<ul style="list-style-type: none"> BigID produces a data-driven protection and privacy compliance platform intended to transform how enterprises protect and manage the privacy of personal data
20-Jan-22	Antian Corporation	Sageview Capital	\$55M	<ul style="list-style-type: none"> Antian is the developer of a cybersecurity platform intended to offer cloud security and compliance
20-Jan-22	Secureframe	Accomplice VC	\$56M	<ul style="list-style-type: none"> Secureframe develops security and compliance software designed to provide SOC 2 compliant security
18-Jan-22	HackerOne	GP Bullhound	\$49M	<ul style="list-style-type: none"> HackerOne is the developer of vulnerability coordination and bug bounty platform designed to protect consumer data, trust and loyalty

Source: Public filings as of 30-Jun-2022, Capital IQ, Pitchbook

About ClearSight

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