

Compliance, Risk & Cybersecurity

Market Monitor

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Navigating Compliance Challenges in 2024: Embracing Innovation

In a world marked by economic downturns, evolving regulatory landscapes, and technological advancements, organizations face unprecedented challenges in the realm of compliance. For years, prognosticators in compliance have been calling for corporations big and small to fortify their risk and compliance postures. The ultimate goal is to create a culture of compliance that promotes transparency, integrity, and ethical business practices. Although a noble pursuit, it is a tall order in practice, particularly for larger, globally diverse entities. Accordingly, we have chosen to focus on three more tangible and arguably interrelated trends for 2024:

- 1. A Resurgence of Interest in RegTech:** Compliance demands are driving investments in Regulatory Technology (RegTech). With regulations becoming increasingly complex, technology offers a solution to streamline processes, reduce errors, and enhance overall efficiency. Adopting RegTech enables organizations to stay ahead of regulatory changes and make informed, data-driven decisions. This approach also allows compliance teams to focus more on strategic and high-value activities. The key to success continues to be budgetary and demonstrable ROI from these platforms.
- 2. Progression of AI:** Compliance done correctly is a data-intensive function. Not surprisingly, the industry continues to trend toward greater adoption of AI and machine learning solutions. Advances in intelligent automation have proven particularly valuable for firms to reduce false positives or more swiftly navigate regulatory changes. In time, developing technology that is predictive and proactive will revolutionize risk management and compliance functions.
- 3. Continuous Monitoring:** Periodic compliance checks are becoming insufficient in the face of dynamic regulatory environments and the evolving nature of risks. The automated nature of continuous monitoring stands out for its ability to not only enhance efficiency but to provide real-time threat assessments, allowing organizations to respond and remediate more quickly to minimize the risks to the enterprise. Although this is particularly prevalent in the context of IT and cybersecurity, continuous monitoring can be applied to any business function or process.

In conclusion, the key to navigating compliance challenges in 2024 lies in embracing innovation. Leveraging RegTech, integrating intelligent automation, and embracing continuous, robust monitoring are crucial steps for organizations aiming to ensure compliance resilience. By combining people, processes, and technology, businesses can effectively navigate the intricate compliance landscape, ensuring sustainable success in an evolving regulatory environment.

Sector Leadership



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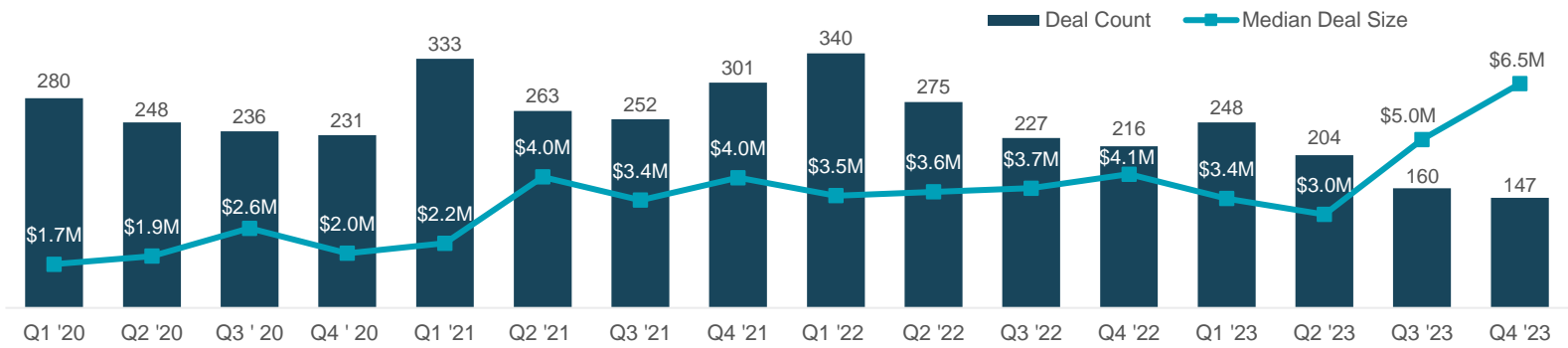
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Sector Spotlight: The Counter-Cyclical Conundrum

Most biologists will tell you evolution does not process down a straight, predictable path. Darwin noted the interaction of natural laws with contingent circumstance leads to mutations in organisms, which then take on new forms as they adapt to survive. A couple of generations earlier, the philosopher Hegel proposed a dialectic of change, from Thesis to Antithesis to Synthesis, that depends on tension and clashes to produce a new, momentarily stable direction. Economist Joseph Schumpeter noted that innovation in the market often requires a degree of “creative destruction,” in which old ways are mercilessly eclipsed by the new. In each case, a “new normal” is preceded by unpleasant, often violent, upheaval.

2023 represented this upheaval in the cybersecurity investment sector, though the synthesis may not yet be readily apparent. Venture capital (VC) investment into cybersecurity startups saw a significant decline compared to the record-breaking years that preceded it, as the chart below demonstrates.

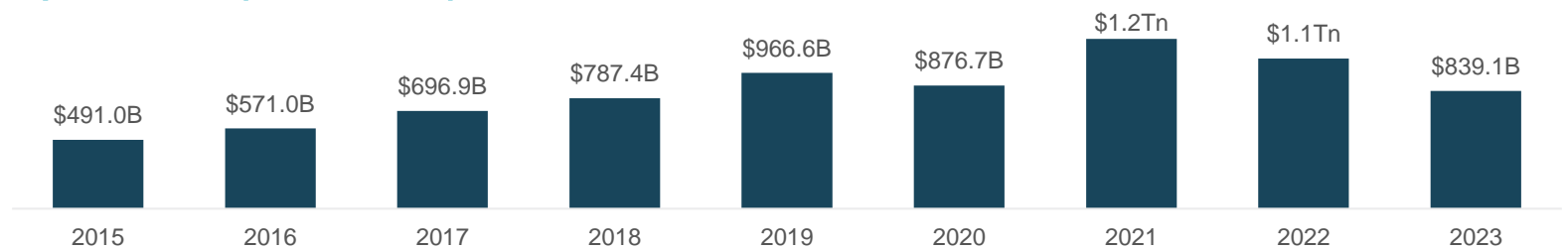
Deal Count & Median Deal Size (2020 – 2023)



While the highs of 2021 were unsustainable, capital invested from cyber-focused funds fell to its lowest level in five years in Q2 2023...then fell further. The “overinvestment” thesis seemed to have been borne out.

On the other hand, VC funds themselves reported bulging coffers, overflowing with capital waiting to be deployed. Chart 2 illustrates the fundraising efforts from the same sector of VC firms with an interest in the cybersecurity vertical. Once raised, a typical fund’s investment cycle is four to six years, so although fundraising activity cooled in 2023, the backlog of dry powder is enormous.

Capital Raised (2015 – 2023)



However, attributing this slowed deal activity in cyber to a waning interest in the sector would be a mistake. The broader VC landscape itself underwent a significant correction in 2023. Rising interest rates and economic uncertainty led to a general tightening of investment belts across all sectors, not just cybersecurity. Investors became more cautious, prioritizing proven businesses with clear paths to profitability over speculative, early-stage ventures, and allocating more capital per round to the winners.

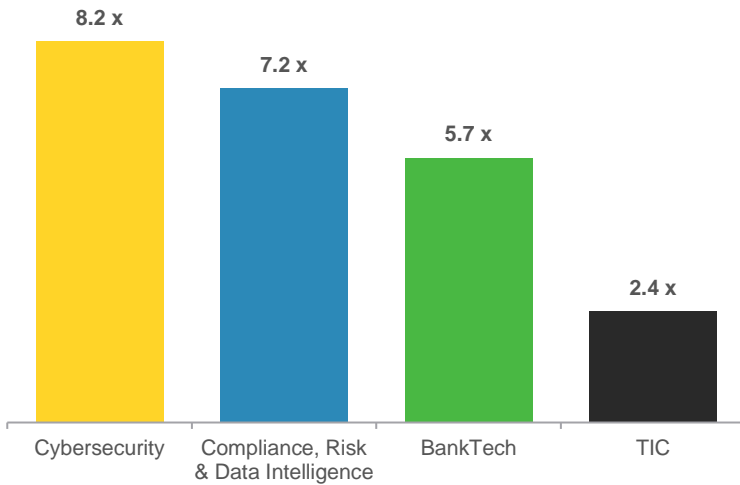
This cautiousness, coupled with an oversupply of capital, created a fascinating dynamic. VC funds, flush with cash, remained eager to invest; however, their criteria for selecting target companies became stricter. They sought out mature startups with demonstrable traction and strong unit economics, rather than riskier bets on bleeding-edge technologies with uncertain futures.

Amidst the headlines of a cybersecurity investment “crash,” a new Synthesis emerged. The industry isn’t experiencing a decline in interest, but rather a recalibration. Investors remain bullish on cybersecurity’s long-term prospects, but are demanding more from the startups they back. This shift, while posing challenges for some early-stage ventures, means funding round sizes will continue to increase. As quality targets attract more capital at the expense of more diversified (but speculative) bets and valuations creep higher with investors competing over a tighter supply of desirable targets, those who fail to adapt, in the Darwinian sense, also fail to survive.

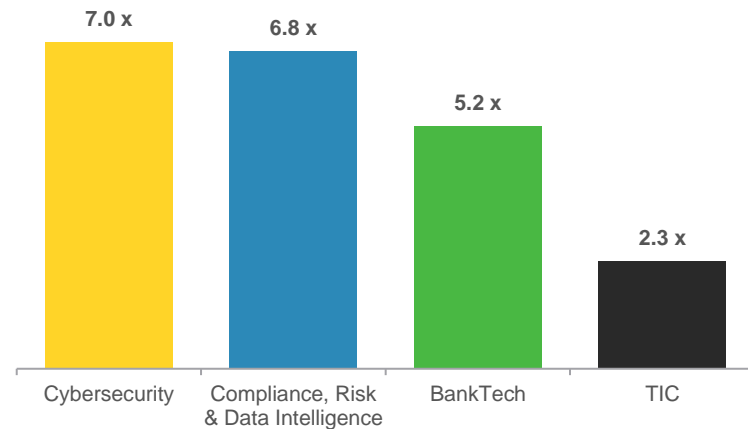
Source: Pitchbook

Public Market Performance

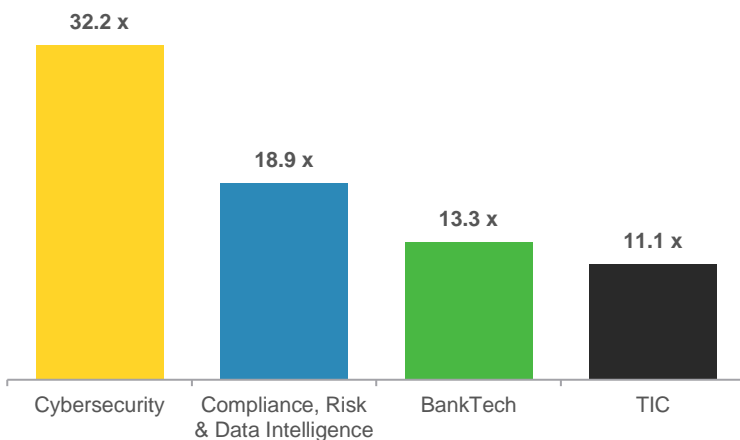
2023E EV / Revenue



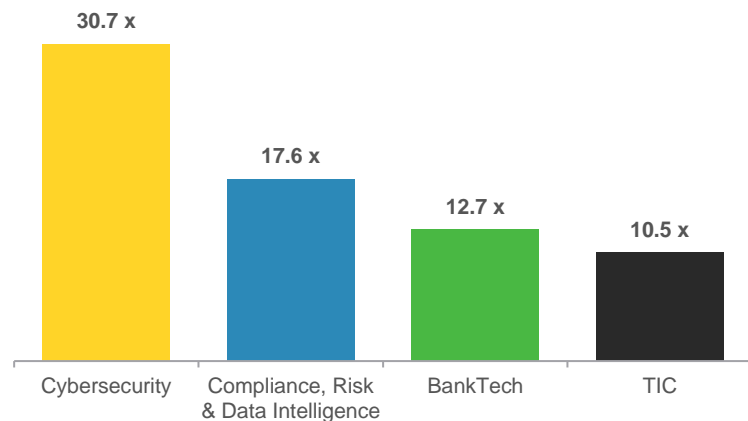
2024P EV / Revenue



2023E EV / EBITDA



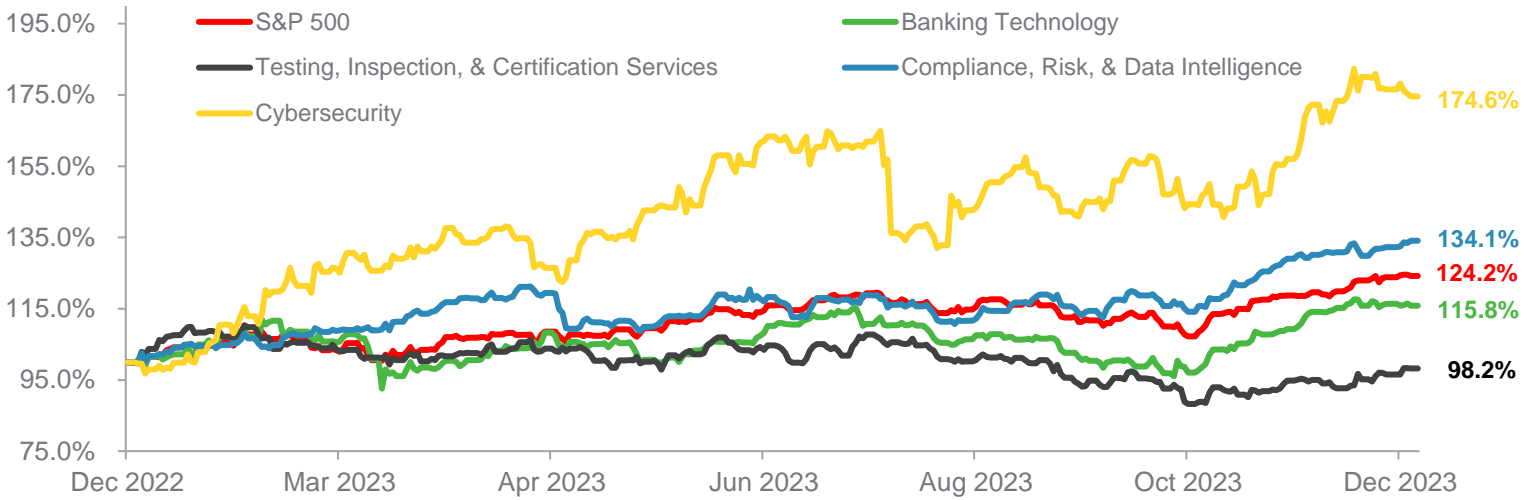
2024P EV / EBITDA



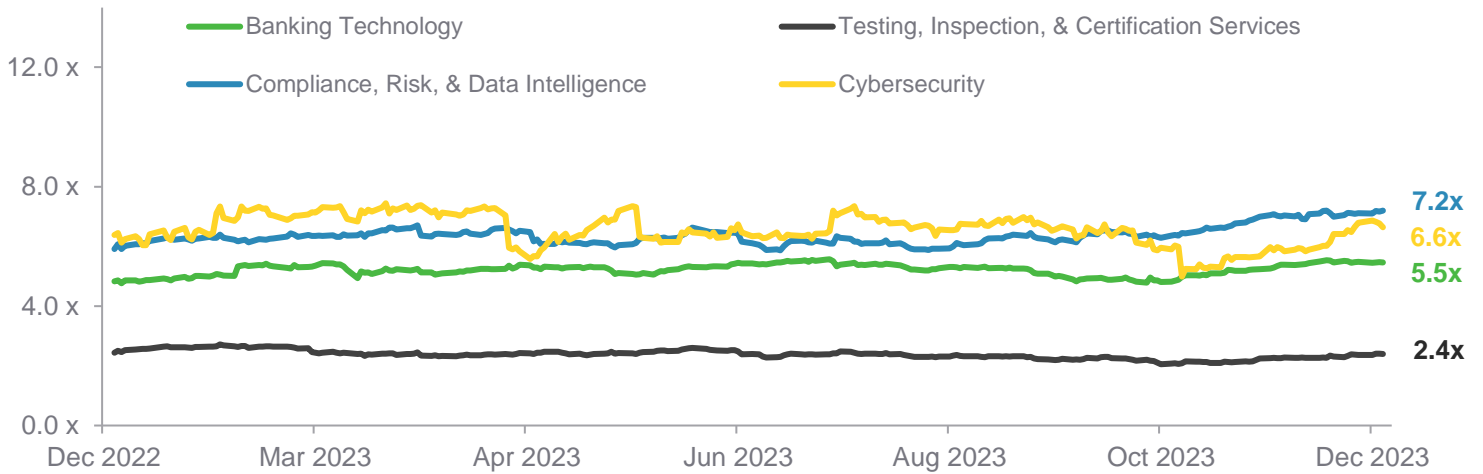
Source: Capital IQ, market data as of 31-December-2023

Public Market Performance

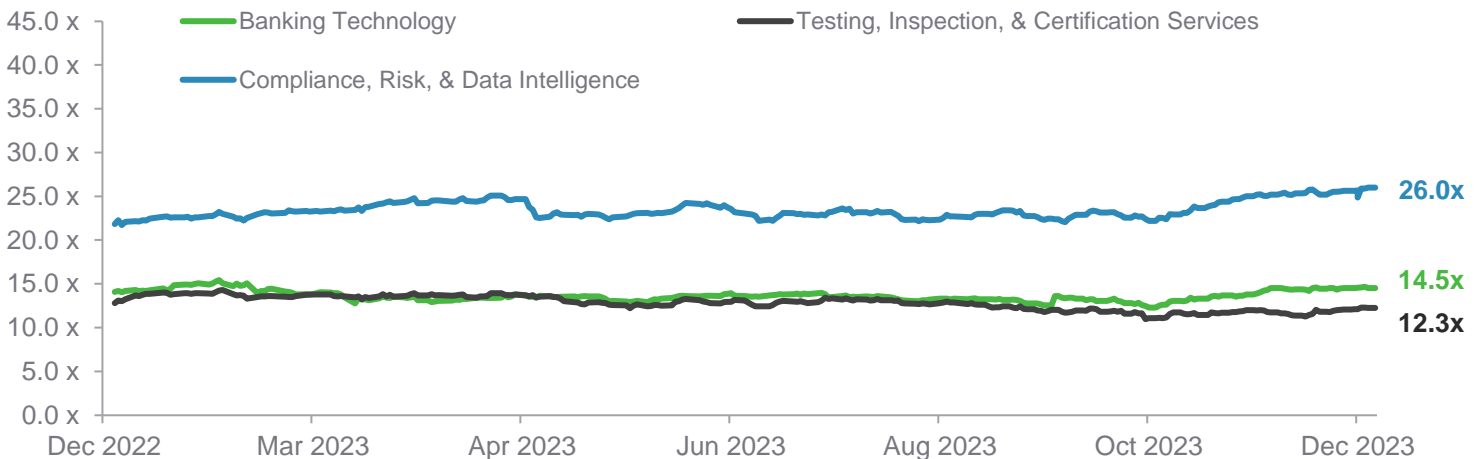
Compliance Market Indices Performance – 1 Year



LTM EV / Revenue Multiple Trend – 1 Year



LTM EV / EBITDA Multiple Trend – 1 Year



Source: Public filings as of 31-Dec-2023, Capital IQ

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

Note: Cybersecurity index excluded from LTM EV / EBITDA Multiple Trend due to above average market volatility

Public Market Performance

Banking Technology Index

| | Closing Price 31-Dec-23 | % of 52 Week High | Equity Market Cap | Enterprise Value | EV / Revenue Multiples | | EV / EBITDA Multiples | | 2024P Revenue Growth | 2024P EBITDA Margin |
|---------------------------|----------------------------|-------------------------|-------------------------|---------------------|------------------------|-------------|-----------------------|--------------|----------------------------|---------------------------|
| | | | | | 2023E | 2024P | 2023E | 2024P | | |
| Banking Technology | | | | | | | | | | |
| Fidelity | \$60.07 | 75.7% | \$35,771 | \$52,648 | 5.4x | 5.2x | 13.3x | 12.7x | 3.0% | 41.0% |
| Fiserv | 132.84 | 97.3% | 80,738 | 102,856 | 5.7 | 5.2 | 12.6 | 11.7 | 8.2% | 44.7% |
| Jack Henry & Associates | 163.41 | 88.7% | 11,901 | 12,114 | 5.8 | 5.5 | 22.1 | 17.5 | 6.6% | 31.6% |
| High | | 97.3% | \$80,738 | \$102,856 | 5.8x | 5.5x | 22.1x | 17.5x | 8.2% | 44.7% |
| Median | | 88.7% | 35,771 | 52,648 | 5.7 | 5.2 | 13.3 | 12.7 | 6.6% | 41.0% |
| Mean | | 87.3% | 42,803 | 55,873 | 5.6 | 5.3 | 16.0 | 14.0 | 5.9% | 39.1% |
| Low | | 75.7% | 11,901 | 12,114 | 5.4 | 5.2 | 12.6 | 11.7 | 3.0% | 31.6% |

Compliance, Risk & Data Intelligence Index

| | Closing Price 31-Dec-23 | % of 52 Week High | Equity Market Cap | Enterprise Value | EV / Revenue Multiples | | EV / EBITDA Multiples | | 2024P Revenue Growth | 2024P EBITDA Margin |
|---|----------------------------|-------------------------|-------------------------|---------------------|------------------------|-------------|-----------------------|--------------|----------------------------|---------------------------|
| | | | | | 2023E | 2024P | 2023E | 2024P | | |
| Compliance, Risk & Data Intelligence | | | | | | | | | | |
| GB Group | \$3.49 | 72.0% | \$881 | \$1,015 | 3.0x | 2.9x | NM | 12.7x | 4.9% | 22.8% |
| RELX PLC | 39.61 | 97.0% | 74,834 | 82,949 | 7.2 | 6.8 | 18.9 | 17.6 | 6.5% | 38.5% |
| Thomson Reuters | 146.70 | 99.1% | 67,060 | 68,784 | 10.1 | 9.6 | 25.8 | 24.7 | 5.2% | 38.8% |
| Wolters Kluwer | 142.26 | 95.4% | 34,444 | 36,696 | 6.0 | 5.7 | 18.8 | 17.5 | 6.0% | 32.4% |
| Workiva | 101.53 | 87.5% | 5,830 | 6,217 | 9.9 | 8.5 | NM | NM | 16.3% | NA |
| High | | 99.1% | \$74,834 | \$82,949 | 10.1x | 9.6x | 25.8x | 24.7x | 16.3% | 38.8% |
| Median | | 95.4% | 34,444 | 36,696 | 7.2 | 6.8 | 18.9 | 17.6 | 6.0% | 35.4% |
| Mean | | 90.2% | 36,610 | 39,132 | 7.2 | 6.7 | 21.2 | 18.1 | 7.8% | 33.1% |
| Low | | 72.0% | 881 | 1,015 | 3.0 | 2.9 | 18.8 | 12.7 | 4.9% | 22.8% |

Source: Capital IQ, equity research reports, market data as of 31-Dec-2023

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 31-Dec-22 | % of 52 Week High | Equity Market Cap | Enterprise Value | EV / Revenue Multiples | | EV / EBITDA Multiples | | 2024P Revenue Growth | 2024P EBITDA Margin |
|--------------------------|----------------------------|-------------------------|-------------------------|---------------------|------------------------|--------------|-----------------------|--------------|----------------------------|---------------------------|
| | | | | | 2023E | 2024P | 2023E | 2024P | | |
| Cybersecurity | | | | | | | | | | |
| Fortinet, Inc. | \$58.53 | 72.0% | \$45,850 | \$43,693 | 8.2x | 7.3x | 28.0x | 25.4x | 12.4% | 28.9% |
| Okta, Inc. | 90.53 | 98.0% | 16,380 | 15,671 | 8.4 | 7.0 | NM | NM | 20.8% | NA |
| Palo Alto Networks, Inc. | 294.88 | 92.7% | 93,271 | 91,599 | 13.3 | 11.2 | NM | 38.1 | 18.7% | 29.4% |
| Rapid7, Inc. | 57.10 | 94.9% | 3,720 | 4,419 | 5.7 | 5.1 | 36.4 | 26.1 | 12.6% | 19.5% |
| Tenable Holdings, Inc. | 43.55 | 82.9% | 5,524 | 4,885 | 6.2 | 5.4 | NM | 35.4 | 14.4% | 15.3% |
| High | | 98.0% | \$93,271 | \$91,599 | 13.3x | 11.2x | 36.4x | 38.1x | 20.8% | 29.4% |
| Median | | 92.7% | 16,380 | 15,671 | 8.2 | 7.0 | 32.2 | 30.7 | 14.4% | 24.2% |
| Mean | | 88.1% | 32,949 | 32,053 | 8.4 | 7.2 | 32.2 | 31.2 | 15.8% | 23.3% |
| Low | | 72.0% | 3,720 | 4,419 | 5.7 | 5.1 | 28.0 | 25.4 | 12.4% | 15.3% |

Testing, Inspection & Certification Index

| | Closing Price 31-Dec-23 | % of 52 Week High | Equity Market Cap | Enterprise Value | EV / Revenue Multiples | | EV / EBITDA Multiples | | 2024P Revenue Growth | 2024P EBITDA Margin |
|--|----------------------------|-------------------------|-------------------------|---------------------|------------------------|-------------|-----------------------|--------------|----------------------------|---------------------------|
| | | | | | 2023E | 2024P | 2023E | 2024P | | |
| Testing, Inspection & Certification | | | | | | | | | | |
| Bureau Veritas SA | \$25.28 | 83.9% | \$11,497 | \$12,572 | 2.0x | 1.9x | 10.0x | 9.4x | 4.3% | 20.1% |
| Intertek Group plc | 54.08 | 93.3% | 8,722 | 10,153 | 2.4 | 2.3 | 11.1 | 10.5 | 4.1% | 22.2% |
| SGS SA | 86.15 | 76.8% | 15,877 | 19,605 | 2.6 | 2.5 | 11.8 | 11.2 | 3.8% | 22.7% |
| High | | 93.3% | \$15,877 | \$19,605 | 2.6x | 2.5x | 11.8x | 11.2x | 4.3% | 22.7% |
| Median | | 83.9% | 11,497 | 12,572 | 2.4 | 2.3 | 11.1 | 10.5 | 4.1% | 22.2% |
| Mean | | 84.7% | 12,032 | 14,110 | 2.3 | 2.3 | 11.0 | 10.4 | 4.1% | 21.7% |
| Low | | 76.8% | 8,722 | 10,153 | 2.0 | 1.9 | 10.0 | 9.4 | 3.8% | 20.1% |

Source: Capital IQ, equity research reports, market data as of 31-Dec-2023

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

Featured M&A Activity

| Date | Target | Buyer/Investor | EV (\$M) | Summary |
|-----------|---|---------------------------------------|-----------|---|
| 07-Dec-23 | GreyCastle Security | DeepSeas | ND | <ul style="list-style-type: none"> GreyCastle Security provides cybersecurity services including risk assessment, compliance, and incident response |
| 06-Nov-23 | Guidehouse | Bain Capital | \$5,300.0 | <ul style="list-style-type: none"> Guidehouse is a leading global provider of consulting and managed services to public sector and commercial clients |
| 04-Oct-23 | Odds On Compliance | U.S. Integrity | ND | <ul style="list-style-type: none"> Odds On Compliance specializes in regulatory compliance services in the sports betting, iGaming, and gambling sectors |
| 14-Sep-23 | Tax Guard | Cogency Global | ND | <ul style="list-style-type: none"> Tax Guard operates an online portal through which it provides tax risk due diligence services |
| 08-Sep-23 | Exiger's Financial Crime Compliance Division | Capgemini | ND | <ul style="list-style-type: none"> The Financial Crime Compliance division of Exiger offers governance, risk, and compliance services |
| 07-Sep-23 | Ermetic | Tenable Holdings | \$265.0 | <ul style="list-style-type: none"> Ermetic develops an analysis platform for cloud infrastructure security |
| 10-Aug-23 | Complyfy | Zyston | ND | <ul style="list-style-type: none"> Complyfy provides AI-driven cybersecurity risk and compliance management solutions |
| 08-Aug-23 | Triaxiom Security | Strata Information Group (SIG) | ND | <ul style="list-style-type: none"> Triaxiom Security is a cybersecurity firm that offers penetration testing, compliance auditing, and strategic security services |
| 02-Aug-23 | Strata Consulting | BlueAlly Technology Solutions | ND | <ul style="list-style-type: none"> Strata is a consulting firm that specializes in security, compliance, DevOps, and infrastructure consulting services |
| 02-Aug-23 | The Mako Group | Centric Consulting | ND | <ul style="list-style-type: none"> The Mako Group provides cybersecurity, risk, audit, and advisory services |
| 24-Jul-23 | Imperva | Thales | \$3,600.0 | <ul style="list-style-type: none"> Imperva develops application data security and compliance products |
| 30-Jun-23 | Clausematch | Corlytics | ND | <ul style="list-style-type: none"> Clausematch is the developer of a compliance workflow and collaboration platform |

Source: Public filings as of 31-Dec-2023, Capital IQ, Pitchbook

Featured Private Placements


| Date | Target | Buyer/Investor | EV (\$M) | Summary |
|-----------|---------------------|--|-------------|--|
| 31-Oct-23 | Duplocloud | WestBridge Capital; StepStone Group | \$32.0 | <ul style="list-style-type: none"> Duplocloud operates an all-in-one DevSecOps platform that automates infrastructure provisioning with built-in security and compliance |
| 24-Oct-23 | Keyfactor | Sixth Street Growth | ND | <ul style="list-style-type: none"> Keyfactor designs and develops digital identity management solutions that enable organizations to confirm authenticity |
| 24-Oct-23 | Adlumin | SYN Ventures | \$70.0 | <ul style="list-style-type: none"> Adlumin develops and operates an enterprise-grade security operations platform |
| 19-Oct-23 | Petra Funds Group | Charlesbank Capital | ND | <ul style="list-style-type: none"> Petra Funds Group specializes in fund administration and other related middle and back-office services to private equity and private debt managers |
| 13-Oct-23 | Cranium AI | Telstra Ventures | \$25.0 | <ul style="list-style-type: none"> Cranium AI operates an AI security and trust platform designed to enhance the reliability of AI systems |
| 10-Oct-23 | Guidepoint Security | Audax Private Equity | ND | <ul style="list-style-type: none"> Guidepoint Security provides cybersecurity solutions and services to government and commercial organizations |
| 05-Oct-23 | Archer Technologies | Intermediate Capital Group | \$10.5 | <ul style="list-style-type: none"> Archer Technologies offers enterprise risk and compliance solutions |
| 06-Sep-23 | CREO | Grant Avenue Capital | Proprietary | <ul style="list-style-type: none"> CREO is a management consulting firm that focuses on growth acceleration, M&A, cybersecurity, and compliance |
| 25-Aug-23 | ShowdMe | Spring Mountain Capital; Blue Heron Capital | ND | <ul style="list-style-type: none"> ShowdMe offers an online compliance training platform for organizations |
| 28-Jul-23 | Visual Edge IT | Ares Management | \$40.0 | <ul style="list-style-type: none"> Visual Edge IT provides technical infrastructure that protects data, keeps systems operational, and mitigates threats |
| 21-Jul-23 | Data Safeguard | Fresno First Bank (FFB) | ND | <ul style="list-style-type: none"> Data Safeguard develops an AI-enabled data safeguard platform which helps clients comply with data privacy regulations |
| 13-Jul-23 | Osano | Baird Capital | \$25.0 | <ul style="list-style-type: none"> Osano operates a data privacy platform that enables companies to manage their websites for privacy compliance |

Source: Public filings as of 31-Dec-2023, Capital IQ, Pitchbook

 Indicates ClearSight served as the Company's sell-side financial advisor

About ClearSight

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| <p>Sellside Advisor</p>  <p>a portfolio company of</p>  <p>has been acquired by</p>  | <p>Sellside Advisor</p>  <p>has been acquired by</p>  <p>a portfolio company of</p>  | <p>Financial Advisor</p>  <p>has received a growth investment from</p>  | <p>Sellside Advisor</p>  <p>has been acquired by</p>  | <p>Sellside Advisor</p>  <p>has been recapitalized by</p>  |

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