

Deal Terms

1 DARK LM = \$7.75 (~611p)

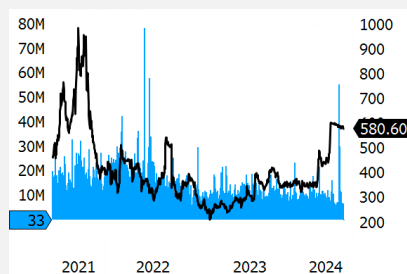
Target: Darktrace

Country	United Kingdom
Bloomberg	DARK LN
Sector	Application Software
Share price (GBP)	580.40
Market cap (GBPm)	4,065.10
Free float (%)	~66

Acquirer: Thoma Bravo

Country	United States
Bloomberg	N/A
Sector	Private Equity
Share price (\$)	N/A
Market cap (\$m)	N/A
Free float (%)	N/A

DARK LN Price Chart



Status

Shareholder vote in place, pending regulatory approval

Author

Keve Paldeak

Event Driven Analyst

k.paldeak@chainbridgeresearch.com

+36 1 720 5258 (direct line)

Gabor Kokosy

g.kokosy@chainbridgeresearch.com

Theodor Dan Le

t.ledan@chainbridgeresearch.com

Keve Paldeak

k.paldeak@chainbridgeresearch.com

Zsombor Nagy

z.nagy@chainbridgeresearch.com

Chain Bridge Research

88 Pine Street 31st Floor

New York, NY 10005

Tel (New York): +1-646-839-5566

Tel (New York): +1-212-233-0100

Darktrace (DARK LN) / Thoma Bravo

AGREED SCHEME OF ARRANGEMENT

The deal spread appears to be somewhat wide given the limited deal risk.

Antitrust

- Antitrust approvals are required in Australia, Austria, South Africa, UK and US and foreign investment approvals in Australia, France, Italy, Sweden, Netherlands and UK.

Product market

- The relevant product markets are email security, cloud security and (cloud) app security, which are subsegments of the cyber solutions market.
- Further segmentation of the cyber solutions market can be justified by the subsegments' different usage, focus and functions.

Geographic market

- The geographic market for cyber solutions is likely to be defined worldwide given the low barriers to enter a country's market.

Overlap

- DARK and Proofpoint (Thoma Bravo) overlap in the cyber solutions market. However, further subsegments could be defined within cyber solutions, such as application security, email security and cloud security.
- In the email security and cloud security subsegments, the combined market share is unlikely to trigger in-depth scrutiny as it stays within the single-digit range. Further DARK and Proofpoint are using different approaches to serve customers.
- Both companies have strong market positions within the application security market subsegment but only in the Australian market. If the Australian regulator considers the geographic market narrower (on a national level), the combination of DARK and Proofpoint would result in a ~27% market share in the application security subsegment.

There are mitigating factors that makes any antitrust related delay unlikely:

- In a wide geographic market definition, DARK and Proofpoint are unlikely to face any regulatory hurdles.
- We note that in its 10-Ks Proofpoint hasn't mentioned DARK as a competitor despite the existence of overlap.
- In the application security market key players are Microsoft, Cisco, Forcepoint, iBoss, Lookout, Netskope, Palo Alto Networks, Broadcom Symantec, Trend Micro. Based on the presence of these global players in the market, we believe that in any sub geography, customers have the alternative to switching from DARK or Proofpoint to other alternative service providers in case of monopolistic behavior.

CBR view:

- Based on the market shares in the UK, US, South Africa and Austria, we expect that the regulators will approve the deal without extension.
- Regarding the combined market share of DARK LN and Thoma Bravo's current portfolio company Proofpoint, we expect ACCC's review has some risk of a longer timeline.
- However, DARK LN's subscription-based and platform-based business model makes switching between services more difficult, but ultimately cybersecurity is still an online service, so a share in a local market does not have the same competitive limiting properties as a service that is physically bound to a physical space.
- Consequently, we expect ACCC to approve it either in a Phase 1 process or in a wild card scenario at the shorter end of a Phase 2 review period.

Timing of precedent Thoma Bravo acquisitions:

- Thoma Bravo acquired SOPH LN in 2019/20 within 5 months.
- Thoma Bravo closed the PING deal in 2022 within 3 months.
- Thoma Bravo's Forgerock deal in 2022 was closed in 10 months after a pull and refile and an HSR second request. Forgerock and Thoma Bravo's PING had overlapping services but the deal was approved without any remedies being required.

CBR view:

- As a base case, we don't consider a major delay in the antitrust reviews as DARK and Proofpoint are not key players in the global market. We assume a 4-5 months deal timeline.
- We see the Dutch approval as the gating items among the foreign investment-related approvals as it has the longest potential phase one review timeline. Any delay to the national security approvals are unlikely.

Valuation:

- Assuming no negative earnings surprise for DARK in the coming months, we see DARK trading at around the peers' median which implies a ~19-20x FY1 EV/EBITDA multiple and a ~390p-405p standalone value/DARK.

Key terms of the merger

Transaction Details	
Announcement Date	April 26, 2024
Offer terms	1 DARK LN = \$7.75 in cash (On the basis of the Announcement Exchange Rate, the cash consideration implies an equivalent value of 620 pence per Darktrace Share)
% owned by DARK LN stockholders	N/A
Deal Size (Market Value)	Approximately \$5,315 million
Offer structure	Cash Acquisition
DARK LN's Board Recommendation	Yes
Voting Agreement	The total irrevocable undertakings received: 100,868,636 DARK LN shares representing approximately 14.4% of the existing issued ordinary share capital. Darktrace Directors and senior employees in aggregate 21,627,725 shares representing approximately 3.1%. KKR DA and Summit Partners in aggregate 79,240,911 shares representing approximately 11.3%.
DARK LN Incorporation	UK
Thoma Bravo Incorporation	US
Scheme of Arrangement	Click here for the merger agreement
Merger Announcement	Click here for the announcement
Synergies	■ N/A
Indicated Closing Date	
■ Q4 2024	
Dividends	
■ DARK LN does not pay regular dividends.	
■ If DARK pays dividends, Thoma Bravo reserves the right to cut the final consideration accordingly.	
DARK LN capitalization	
■ DARK LN Equity ■ There are 700,396, 071 DARK shares issued and outstanding.	
■ DARK LN Net Leverage ■ DARK is in net cash	
Valuation Multiples	
■ Premium The Acquisition is priced at a premium of approximately 44.3% to the volume-weighted average price of 429.9 pence per share for the three-month period ended 25 April 2024 and 20% to the closing price of 517.0 pence per share on 25 April 2024.	
■ LTM EV/Sales	8.3x
■ FY1 EV/Sales	7.4x
■ FY2 EV/Sales	6.1x
■ LTM P/E	45.7x
■ FY1 P/E	46.4x
■ FY2 P/E	39.1x
■ FY1 EV/EBITDA	31.0x
■ FY2 EV/EBITDA	25.0x
Timetable	
■ Confidentiality Agreement	March 27, 2024
■ Date of the Scheme of Arrangement (T)	May 23, 2024
■ Deal Announcement	April 26, 2024
■ Shareholder meeting	June 18, 2024
■ Scheme Court Hearing	4Q 2024
■ Settlement (CBR est.)	By 4Q 2024
■ Outside date	January 27, 2025
Key conditions to the merger	
■ Shareholder approvals	■ In place
■ Court Approval	■ Yes
■ No legal prohibition	■ Yes
■ Regulatory Approvals	■ Antitrust: ACCC (Australia) Federal Competition Authority (Austria), Competition Commission (South Africa), CMA (UK), HSR (US) ■ Foreign Investment Approvals: Australia, France, Italy, the Netherlands, Sweden, UK
■ No Company or Parent MAC	■ Yes

MAC Definitions

Since 30 June 2023, and except as Disclosed, there having been:

- (i) no adverse change and no circumstance having arisen which would be expected to result in any adverse change or deterioration in the business, assets, value, financial or trading position, profits, prospects or operational performance of any member of the Wider Darktrace Group to an extent which is material to the Wider Darktrace Group taken as a whole or in the context of the Acquisition;
- (ii) no litigation, arbitration proceedings, prosecution or other legal proceedings including, without limitation, with regard to intellectual property rights used by the Wider Darktrace Group having been threatened, announced or instituted by or against or remaining outstanding against any member of the Wider Darktrace Group or to which any member of the Wider Darktrace Group is or may become a party (whether as claimant or defendant or otherwise) which, in any such case, might reasonably be expected to have a material adverse effect on the Wider Darktrace Group taken as a whole, and no enquiry, review, investigation or enforcement proceedings by, or complaint or reference to, any Third Party against or in respect of any member of the Wider Darktrace Group having been threatened, announced or instituted by or against, or remaining outstanding in respect of, any member of the Wider Darktrace Group which, in any such case, might reasonably be expected to have a material adverse effect on the Wider Darktrace Group taken as a whole;
- (iii) no contingent or other liability having arisen, increased or become apparent which is reasonably likely to adversely affect the business, assets, financial or trading position, profits, prospects or operational performance of any member of the Wider Darktrace Group to an extent which is material to the Wider Darktrace Group taken as a whole;
- (iv) no steps having been taken and no omissions having been made which are reasonably likely to result in the withdrawal, cancellation, termination or modification of any licence held by any member of the Wider Darktrace Group, which is necessary for the proper carrying on of its business and the withdrawal, cancellation, termination or modification of which is material and reasonably be expected to have a material adverse effect on the Wider Darktrace Group taken as a whole; and 45
- (v) no member of the Wider Darktrace Group having conducted its business in material breach of any applicable laws and regulations which in any case is material in the context of the Wider Darktrace Group taken as a whole;

Since 30 June 2023, except as Disclosed, Bidco not having discovered:

- (i) that any financial, business or other information concerning the Wider Darktrace Group publicly announced or disclosed to any member of the Wider Bidco Group at any time after 30 June 2023 prior to the date of this document by or on behalf of any member of the Wider Darktrace Group or to any of their advisers is misleading, contains a misrepresentation of fact or omits to state a fact necessary to make that information not misleading and which is, in any case, material in the context of the Wider Darktrace Group taken as a whole or in the context of the Acquisition; or
- (ii) that any member of the Wider Darktrace Group is subject to any liability, contingent or otherwise and which is material in the context of the Wider Darktrace Group taken as a whole.

Break fees

- Break fee ■ N/A
- Reverse break fee ■ N/A

Antitrust related clauses

- Jurisdictions ■ N/A
- Divestiture obligation ■ N/A
- Litigation obligation ■ N/A
- Reverse break fee (regulatory) ■ N/A

Governing Law

- English law

Key DARK LN shareholders

Shareholders	%
DARKTRACE EBT	7.4
KKR Dark Aggregator LP	7.3
FIRST TRUST	6.6
BlackRock Inc	4.2
Legal & General Group PLC	4.1
Summit Partners LP	4.0
Brighton Park Capital Management L	3.9
Lynch Michael R	3.4
Ten Eleven Ventures LLC	3.3
Bardays PLC	3.1
Others	52.7

Source: Bloomberg

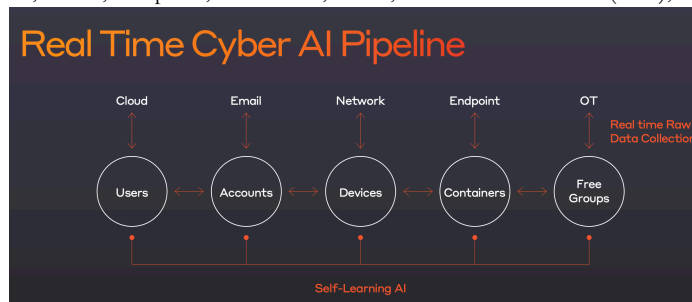
Company descriptions & rationale for the merger

DARK LN DESCRIPTION

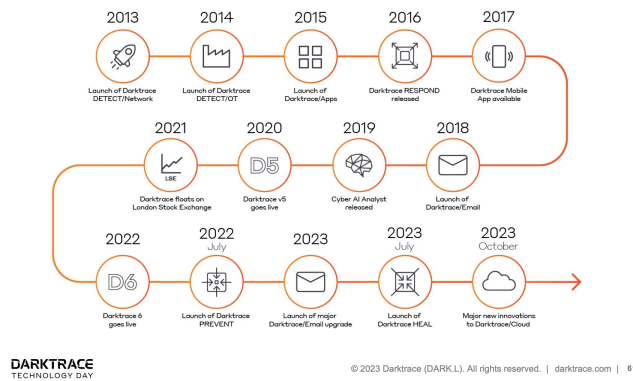
- Darktrace plc is a United Kingdom-based autonomous cyber security artificial intelligence (AI) company. The Company is focused on providing AI for enterprises.
- The company was founded by mathematicians and cyber defense experts in 2013, Darktrace is a global leader in cybersecurity AI, delivering complete AI-powered solutions in its mission to free the world of cyber disruption. The company protects more than 9000 customers from the world’s most complex threats, including ransomware, cloud, and SaaS attacks. Headquartered in Cambridge, UK, Darktrace has more than 2,200 employees and serves customers in more than 110 countries.

Products/Services:

- Its portfolio includes Network, Cloud, Endpoint, Zero Trust, Email, Software as a Service (SaaS), and Operational Technology (OT).

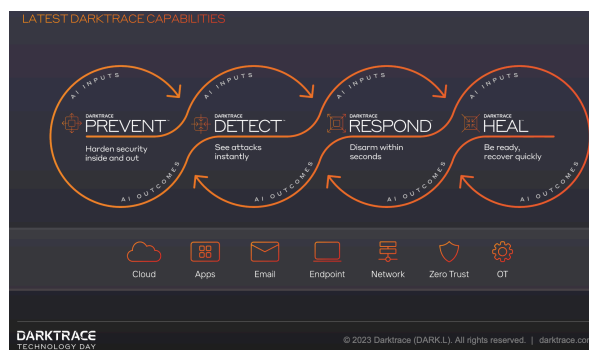


Source: Company Presentation



Source: Company Presentation

- Its products include:
 - Darktrace PREVENT: an attack surface management that continuously monitors attack surface for risks, high-impact vulnerabilities, and external threats
 - Darktrace DETECT: analyzes thousands of metrics to reveal subtle deviations that may signal an evolving threat, including unknown techniques and novel malware
 - Darktrace RESPOND: works autonomously to disarm attacks whenever they occur and reacts to threats in seconds, as well as works 24/7 as it frees up security teams and resources
 - Darktrace HEAL: enables organizations to restore business affected by cyber-attacks to trusted operational states through AI assistance.

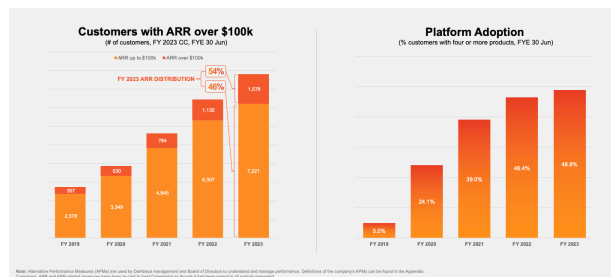


Source: Company Presentation

Customers:

- The company has approximately 8800 customers in 110 countries from 8 dominant sectors:
 - Technology
 - Governments
 - Critical Infrastructure
 - Global Retailers
 - Financial and Insurance
 - Healthcare
 - Telecommunications
 - Education

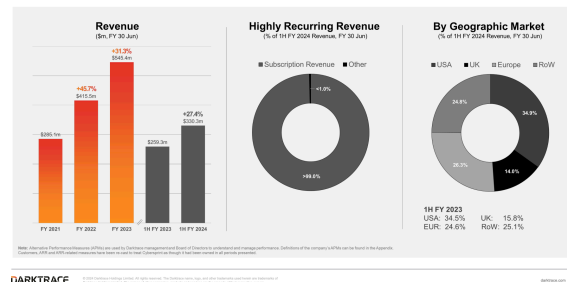
Increasing ARR Distribution and Platform Adoption



Source: Company Presentation

- Most of the revenue comes from subscriptions. The revenue is well diversified among clients, and the exposure to big clients (with more than \$100k revenue per year) is relatively small.
- The breakdown of company sales by region in 2023 was as follows:
 - Europe: \$135.6m, represented 24.9% of the total revenue
 - UK: \$82.8m, represented 15.2% of the total revenue
 - US: \$188.8m, represented 34.6% of the total revenue
 - Rest of World: \$138.1m, represented 25.3% of the total revenue

Revenue: Strong Growth & Recurring Features



Source: Company Presentation

- DARK LN provides services for government among:
 - Danish Tax Authority: secures critical infrastructure with Darktrace AI
 - U.S. Federal Division: serve and protect U.S. government and critical infrastructure
 - UK Government: protect crucial public services and citizens' data
 - UK National Health Service: spot and stop unpredictable and in-progress cyber-threats

Competitors:

- The cyber security market is a competitive industry. The biggest players in this market are well known giants like IBM (20%), Microsoft (16%), Broadcom (11%) and Cisco (6%). They dominate the global cyber solutions market with more than 50% market share.
- Furthermore, there are smaller specialized companies like CrowdStrike, Okta, Akamai, Palo Alto Networks, Trend Micro, Check Point Software, Rapid7 or VMware (Broadcom).
- DARK LN is small-medium size player in this market with global market share less than 1%.

THOMA BRAVO DESCRIPTION

- Thoma Bravo is one of the largest software-focused investors in the world, with over \$138 billion in assets under management as of December 31, 2023. The company has 5 offices: Chicago, London, Miami, New York, San Francisco and its current portfolio constitutes approximately 80 companies.
- The firm invests in growth-oriented, innovative companies operating in the software and technology sectors. Leveraging Thoma Bravo's deep sector expertise and proven strategic and operational capabilities, the firm collaborates with its portfolio companies to implement operating best practices and drive growth initiatives.
- Over the past 20 years, Thoma Bravo has acquired or invested in more than 465 companies representing approximately \$260 billion in enterprise value (including control and non-control investments). The firm has offices in Chicago, London, Miami, New York and San Francisco.

Investment focus:

- The firm invests in growth-oriented, innovative companies operating in the software and technology sectors. The current 80 portfolio companies are grouped into the following sectors:
 1. Applications
 2. Cybersecurity
 3. Financial Technology
 4. Healthcare IT
 5. Infrastructure

Current investments in the cybersecurity industry:

- **AppOmni:** Leading provider of SaaS Security Management. AppOmni provides unprecedented data access visibility, management, and security of SaaS solutions, enabling organizations to secure mission-critical and sensitive data. AppOmni's patent-pending technology deeply scans APIs, security controls, and configuration settings to evaluate the current state of SaaS deployments and compare against best practices and business intent. Customers in the
- **ConnectWise:** Leading provider of software solutions to the Managed Service Provider (MSP) and SMB ecosystem. The company provides the most comprehensive business automation platform in its industry.
- **Delinea:** Leading provider of privileged access management (PAM) solutions that make security seamless for the modern, hybrid enterprise. Our solutions empower organizations to secure critical data, devices, code, and cloud infrastructure to help reduce risk, ensure compliance, and simplify security.
- **Illumio:** Pioneer and market leader of Zero Trust Segmentation, stops breaches from becoming cyber disasters. Illumio Core and Illumio Edge automate policy enforcement to stop cyberattacks and ransomware from spreading across applications, containers, clouds, data centers, and endpoints.
- **Imprivata:** Leading provider of authentication, identity and access solutions for healthcare organizations globally. The Imprivata platform addresses critical compliance and security challenges while improving productivity and the patient experience. The company's solutions include an authentication, single sign-on and workflow automation platform; a multi-factor authentication platform for e-prescribing controlled substances, remote access, and clinical workflows; a cloud-based secure communications and messaging platform; and a patient identification system using biometric technology. Customers in the healthcare industry.
- **Intel 471:** Empowers enterprises, government agencies, and other organizations to win the cybersecurity war using near-real-time insights into the latest malicious actors, relationships, threat patterns, and imminent attacks relevant to their businesses. The company's TITAN platform collects, interprets, structures, and validates human-led, automation-enhanced results.
- **LogRhythm:** Empowers more than 4,000 customers across the globe to measurably mature their security operations program. LogRhythm's award-winning NextGen SIEM Platform delivers comprehensive security analytics; user and entity behavior analytics (UEBA); network detection and response (NDR); and security orchestration, automation, and response (SOAR) within a single, integrated platform for rapid detection, response, and neutralization of threats.
- **Ping Identity:** The company is making digital experiences both secure and seamless for all users, without compromise. That's digital freedom. The company let enterprises combine our best-in-class identity solutions with third-party services they already use to remove passwords, prevent fraud, support Zero Trust, or anything in between.
- **Proofpoint:** Leading cybersecurity and compliance company that protects organizations' greatest assets and biggest risks: their people. With an integrated suite of cloud-based solutions, Proofpoint helps companies around the world stop targeted threats, safeguard their data, and make their users more resilient against cyber-attacks.
- **SailPoint:** Leading provider of identity security for the modern enterprise. Enterprise security starts and ends with identities and their access, yet the ability to manage and secure identities today has moved well beyond human capacity. Harnessing the power of our deep expertise combined with machine learning, the SailPoint Identity Security Platform delivers the right level of access to the right identities and resources at the right time—matching the scale, velocity, and environmental needs of today's cloud-oriented enterprise.
- **Sophos:** Powered by SophosLabs - a global threat intelligence and data science team - Sophos' cloud-native and AI-enhanced solutions secure endpoints (laptops, servers and mobile devices) and networks against evolving cybercriminal tactics and techniques, including automated and active-adversary breaches, ransomware, malware, exploits, data exfiltration, phishing, and more. The award-winning Sophos Central cloud-based platform integrates Sophos' entire portfolio of best-of-breed products, from the Intercept X endpoint solution to the XG Firewall, into a single system called Synchronized Security.

- **Venafi:** Cybersecurity market leader in and the inventor of machine identity management, securing machine-to-machine connections and communications. Venafi protects machine identity types by orchestrating cryptographic keys and digital certificates for SSL/TLS, SSH, code signing, mobile and IoT. Venafi provides global visibility of machine identities and the risks associated with them for the extended enterprise—on premises, mobile, virtual, cloud and IoT—at machine speed and scale. Venafi puts this intelligence into action with automated remediation that reduces the security and availability risks connected with weak or compromised machine identities while safeguarding the flow of information to trusted machines and preventing communication with machines that are not trusted.

STRATEGIC RATIONALE FOR THE MERGER

- Thoma Bravo believes that the acquisition of Darktrace represents an attractive opportunity to increase its exposure to the large and growing cybersecurity market, and to invest to accelerate Darktrace's continued development and further scale the business globally.
- The cybersecurity market is evolving at pace and the volume and sophistication of cyber threats and attacks faced is rapidly increasing. However, the market remains fragmented, with few truly global players. Serving the world's largest customers and enterprises requires Darktrace to continually make significant technology investments and further scale globally, to ensure that its platform can stay ahead of changing cyber threats.
- Thoma Bravo believes that private ownership can facilitate its development. Thoma Bravo has a long track record of providing capital and strategic support to experienced management teams, growing software and technology companies, and creating highly skilled jobs.
- A partnership with Thoma Bravo would give Darktrace a unique opportunity to accelerate Darktrace's growth and the development of AI augmented cyber solutions for its customers and grow over time; in particular, through:
 - (i.) continuing Darktrace's strong organic growth momentum, with help from Thoma Bravo's deep experience of growing enterprise software businesses as well as through opportunities and learnings from its large software portfolio;
 - (ii.) utilising Thoma Bravo's M&A expertise to grow the Darktrace platform in the highly fragmented cybersecurity market; and
 - (iii.) leveraging Thoma Bravo's proprietary operational best practices built over the course of 40 years of experience to further build a best-in-class software franchise.

BACKGROUND

- The first discussions between DARK LN and Thoma Bravo started in 2022. On August 15, 2022, Darktrace confirmed that it is in early stages of discussions with Thoma Bravo regarding a possible cash offer for the entire issued and to be issued share capital of the company.
- According to a 2022 Times article, at that time it was expected that the buyout might face scrutiny from UK regulators.
 - [The Times](#): Opposition is mounting to a potential sale of Darktrace, with shareholders and MPs speaking out over worries that it undervalues the Cambridge-based cybersecurity business and could have an impact on Britain's wider technology ecosystem.
 - The potential sale of Darktrace has reignited concerns over the UK losing star businesses to foreign ownership. Darren Jones, chairman of the business select committee, said it was a case of "another great British tech success story once again at risk of outgrowing Britain. This pattern of fundraising outside of the UK is not new. If ministers want to make the most of the UK tech economy, they need to fix this long-running problem."
- However in 2022, as per CTFN, the deal would have avoided the regulatory scrutiny.
 - CTFN: Michael Bow and Deane McRobie reported that Darktrace is not certain that a takeover bid by Thoma Bravo would face scrutiny under the UK government's National Security & Investment regime, citing a source close to the situation. Darktrace said on August 15 that it was in talks with Thoma Bravo about an all-cash takeover after receiving "a number of preliminary approaches and conditional proposals". A person familiar with the situation clarified to CTFN that this referred only to offers from Thoma Bravo.
 - Times: Nor do analysts expect opposition from the UK government. Darktrace works for the government, but offers "just one of many potential solutions", one analyst said.
 - Reynolds said: "I don't see any reason for the government to be concerned." Indeed, he thinks Darktrace's position as a beacon for British technology listings has been overdone: "A takeover is not particularly relevant."
- Darktrace's board said that in 2022 it had previously reviewed and rejected unsolicited offers at that time from Thoma Bravo on the basis that they did not fairly represent the value of its business. At that time Darktrace's market capitalisation was GBP 2.7bn.

Key risks

REGULATORY RISKS AND TIMING

- Antitrust approvals are required in Australia, Austria, South Africa, UK and US and foreign investment approvals in Australia, France, Italy, Sweden, Netherlands and UK.

Antitrust:

- **Australia – ACCC:** The proposed review timing is **30 working days** from submission of a 'complete' application where no competition concerns are identified (Phase 1) and an additional 90 working days (Phase 2) where concerns are raised.
 - The applicant may agree to extend the timeframe. The ACCC must make a determination either granting authorisation, granting authorisation subject to conditions, or denying authorisation. If the ACCC does not make a determination within 90 days (or within the extended time period as agreed), the application is taken to be refused.
- **Austria – Federal Competition Authority:** The BWB examines over a **four-week period**, so-called Phase I whether the planned merger will create or strengthen a dominant market position. Upon application of the parties, this period can be extended only by another two weeks.
- The Federal Competition Authority applies for examination of the merger (Phase II) at the Cartel Court if by that time:
 - the Federal Competition Authority holds the view that the merger causes competition infringements and during or before Phase I no appropriate measures to eliminate these concerns were found and arranged, or
 - the influence of the merger on competitive matters cannot be evaluated by the BWB during the four-week period (e.g. because of the absence of relevant assessment information or because of the existence of complex competitive issues).
- **South Africa – Competition Commission:** the Commission has the initial **20 business days** to investigate intermediate and small mergers. The Commission can, however, extend the investigation days by 40 business days. With regards to large mergers, the Commission has the initial 40 business days to investigate, the investigation days can be extended with a maximum of 15 days per request with consent from the merging parties and the Competition Tribunal of the Commission's Rules.
- **UK – CMA:** There are **Phase I (40 working days)** and Phase II investigation processes.
- Phase 1 is an investigation to establish whether there is a realistic prospect that a qualifying merger will cause a substantial lessening of competition within 1 or more markets in the UK or part of it. If this is the case, then, subject to some exceptions explained in our guidance Mergers: guidance on the CMA's jurisdiction and procedure, the CMA is under a duty to refer the merger for an in-depth phase 2 investigation.
 - In a phase 2 investigation the CMA conducts a more detailed analysis to determine whether your merger qualifies as a relevant merger and, if so, has resulted, or may be expected to result in a substantial lessening of competition. A phase 2 investigation normally takes up to 24 weeks, with a possible extension by up to 8 weeks. If the CMA decides that remedies are needed to remedy a substantial lessening of competition, it has up to 12 weeks to implement these remedies.
- **US – HSR approval:** Once the filing is complete, the parties must **wait 30 days** (15 days in the case of a cash tender offer or a bankruptcy) or until the agencies grant early termination of the waiting period before they can consummate the deal.
- Typically, once both companies have substantially complied with the Second Request, the agency has an additional 30 days to review the materials and take action, if necessary. (In the case of a cash tender offer or bankruptcy, the agency has 10 days to complete its review and the time begins to run as soon as the buyer has substantially complied.) The length of time for this phase of review may be extended by agreement between the parties and the government in an effort to resolve any remaining issues without litigation.
- Varies significantly depending on complexity and whether a Second Request is issued. Simple cases may resolve within the initial waiting period, while complex ones with Second Requests can take several months or even longer.

Product market

- The relevant product markets are email security, cloud security and (cloud) app security, which are subsegments of the cyber solutions market.
- Further segmentation of the cyber solutions market can be justified by the subsegments' different usage, focus and functions.

Geographic market

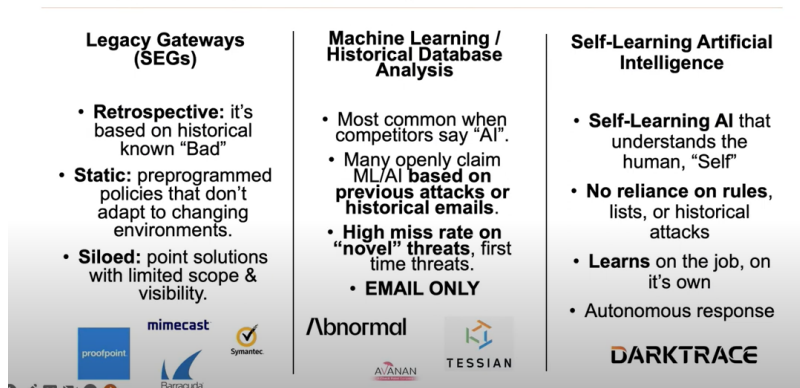
- The geographic market for cyber solutions is likely to be defined worldwide given the low barriers to enter a country's market.

Overlap

- DARK and Proofpoint (Thoma Bravo) overlap in the cyber solutions market. However, further subsegments could be defined within cyber solutions, such as application security, email security and cloud security.
- In the **email security and cloud security subsegments**, the combined market share is unlikely to trigger in-depth scrutiny as it stays within the single-digit range. Further DARK and Proofpoint are using different approaches to serve customers.

Competitive Landscape

DARKTRACE



Source: Company presentation

- Both companies have strong market positions within the **application security market** subsegment but only in the Australian market.
 - If the Australian regulator considers the geographic market narrower (on a national level), the combination of DARK and Proofpoint would result in a ~27% market share in the application security subsegment. That could result in an in-depth review and some delay in the deal timeline; however, we still don't see any remedies or asset divestitures being required based on the competitive nature of the cyber solutions market.
- There are mitigating factors that makes any antitrust related delay unlikely:
 - In a wide geographic market definition, DARK and Proofpoint are unlikely to face any regulatory hurdles.
 - In its latest available (2020) 10-K Proofpoint mentioned the following competitors:
 - Email and Advanced Threat Protection: Broadcom Inc., Cisco Systems, Inc., FireEye, Inc., Google, Inc., Microsoft Corporation, and Mimecast Ltd.
 - Information Protection: Broadcom Inc., Forcepoint, McAfee Corp. and Netskope, Inc.
 - We note that DARK hasn't been mentioned as a competitor despite the existence of overlap.
 - In the application security market key players are Microsoft, Cisco, Forcepoint, iBoss, Lookout, Netskope, Palo Alto Networks, Broadcom Symantec, Trend Micro. Based on the presence of these global players in the market, we believe that in any sub geography, customers have the alternative to switching from DARK or Proofpoint to other alternative service providers in case of monopolistic behavior.

According to [Statista](#) in 2022 Darktrace had the following market shares:

	Australia	UK	Austria	South Africa	US
Cyber Solutions in general					
Darktrace market share	4%	<3%	<2%	<1%	<3%
Related Thoma Bravo company (Proofpoint) market share	10%	9%	4%	0%	0%
Combined market share	~14% (1st or 2nd position)	~9%	~4%	~0%	~0%
Cyber Solutions - Application Security					
Darktrace market share	12%	4%	<2%	<2%	<2%
Related Thoma Bravo company (Proofpoint) market share	15%	14%	7%	0%	0%
Combined market share	~27% (1st position)	~18%	~7%	~0%	~0%
Cyber Solutions - Cloud Security					
Darktrace market share	8%	4%	<1%	<1%	<1%
Related Thoma Bravo company (Proofpoint) market share	0%	0%	0%	0%	0%
Combined market share	~8%	~4%	~0%	~0%	~0%
Cyber Solutions - Data Security					
Darktrace market share	0%	<1%	<1%	<1%	<2%
Related Thoma Bravo company (Proofpoint) market share	23%	12%	5%	0%	0%
Combined market share	~23%	~12%	~5%	~0%	~0%
Cyber Solutions - Network Security					
Darktrace market share	9%	4%	<1%	<1%	<1%
Related Thoma Bravo company (Proofpoint) market share	0%	0%	0%	0%	0%
Combined market share	~9%	~4%	~0%	~0%	~0%
Cyber Solutions - Endpoint Security					
Darktrace market share	7%	3%	<2%	<1%	<2%
Related Thoma Bravo company (Proofpoint) market share	0%	0%	0%	0%	0%
Combined market share	~7%	~3%	~0%	~0%	~0%
Cyber Solutions - Other Solutions					
Darktrace market share	0%	<3%	<3%	<1%	<3%
Related Thoma Bravo company (Proofpoint) market share	16%	14%	8%	0%	0%
Combined market share	~16%	~14%	~8%	~0%	~0%

Source: Statista, CBR

CBR view:

- Based on the market shares in the UK, US, South Africa and Austria, we expect that the regulators will approve the deal without extension.
- Regarding the combined market share of DARK LN and Thoma Bravo's current portfolio company Proofpoint, we expect ACCC's review has some risk of a longer timeline.
- However, DARK LN's subscription-based and platform-based business model makes switching between services more difficult, but ultimately cybersecurity is still an online service, so a share in a local market does not have the same competitive limiting properties as a service that is physically bound to a physical space.
- Consequently, we expect ACCC to approve it either in a Phase 1 process or in a wild card scenario at the shorter end of a Phase 2 review period.

Timing of precedent Thoma Bravo acquisitions:

- Thoma Bravo acquired SOPH LN in 2019/20 within 5 months.
- Thoma Bravo closed the PING deal in 2022 within 3 months.
- Thoma Bravo's Forgerock deal in 2022 was closed in 10 months after a pull and refile and an HSR second request.
 - Forgerock and Thoma Bravo's PING had overlapping services but the deal was approved without any remedies being required.

CBR view:

- As a base case, we don't consider a major delay in the antitrust reviews as DARK and Proofpoint are not key players in the global market. We assume a 4-5 months deal timeline.

Foreign Investment Approvals:

- **Australia:** Under section 77 of the FATA, FIRB has 30 days from when the application fee is paid to make a decision and then a further ten days to notify an applicant of that decision. These time frames are however often extended. FIRB has broad powers to extend the statutory time frame.
- **France:** The French foreign investment approval process has a two-step review. The first phase takes **30 business days** from the date a complete application has been filed, followed by a second phase of 45 business days.
- **Italy:** The review period starts on the date of the notification and can last up to **45 days**. The national authorities can suspend this period once, for a maximum of 10 working days, if information is requested from the parties involved, and for a maximum of 20 working days if information is sought from third parties.
- the **Netherlands:** The review procedure under the Vifo Act consists of two phases. The first phase starts with the notification. After notification, the minister has **eight weeks** to assess whether the investment could potentially cause a risk to national security. The first phase ends with a notification that no review decision is necessary or that further review is necessary. The failure of the minister to make a timely decision is deemed to be a decision that no further review is necessary.
 - If further review is deemed necessary by the minister, the second phase starts. The minister then has another eight weeks to take a decision. The second phase can be extended up to six months as well. However, if the first phase period has been extended, this time will be deducted from the second phase period.
- **Sweden:** The investor must submit a mandatory notification and obtain approval from ISP before the acquisition is implemented (so called standstill obligation). Phase I is 25 working days from notification. ISP must either approve the acquisition or open an in-depth review (Phase II), which may last three calendar months (extendable to six months). Before the end of Phase II, ISP must either approve or prohibit the investment if found necessary with regard to national security or public order.
- **UK:** The ISU within BEIS deals with notifications. They will conduct an initial review within 30 working days of notification, after which the transaction will either be cleared or called-in for a full national security assessment. A full assessment will itself take up to 30 working days, subject to an initial extension of 45 working days, and further potential voluntary extension if agreed with the parties. The clock can be stopped on the review during a full assessment if further information is required.

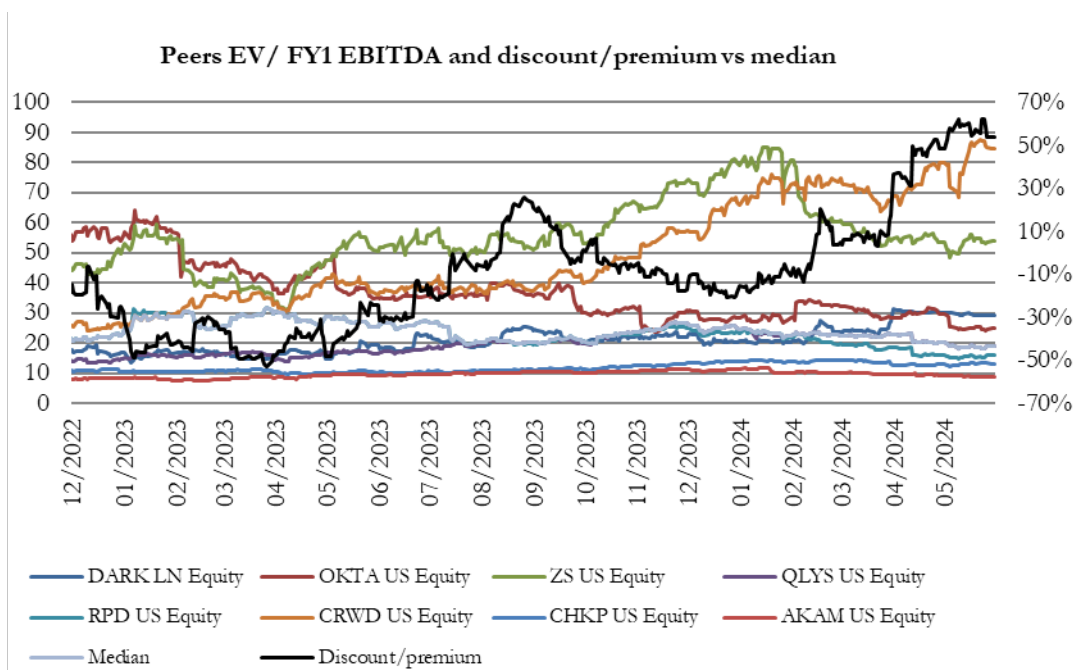
CBR comment

- We see the Dutch approval as the gating items among the foreign investment-related approvals as it has the longest potential phase one review timeline.

Valuation

STANDALONE VALUE

- In the last few months, DARK has been trading at a 10-40% discount compared to its peers on an FY1 EV/EBITDA basis. Following the March positive profit target adjustments, the discount disappeared. Assuming no negative earnings surprise for DARK in the coming months, we see DARK trading at around the peers' median which implies a ~19-20x FY1 EV/EBITDA multiple and a ~390p-405p standalone value/DARK.



Company	Ticker	Price	Mkt Cap (mn)	FY1 EV/ EBITDA	FY2 EV/ EBITDA	EBITDA CAGR	FY1 EBITDA Margin	Sales CAGR
DARKTRACE PLC	DARK LN	5.77	4,040	29.2x	23.5x	29.0%	24.0%	22.3%
OKTA INC	OKTA US	88.35	14,863	-	21.9x	-	21.7%	12.9%
ZSCALER INC	ZS US	181.06	27,367	54.1x	42.4x	42.2%	22.8%	26.6%
QUALYS INC	QLYS US	138.84	5,129	19.1x	17.6x	3.5%	39.9%	9.5%
RAPID7 INC	RPD US	38.50	2,399	16.5x	14.9x	24.6%	21.9%	9.2%
CROWDSTRIKE HO-A	CRWD US	377.93	91,973	85.5x	64.8x	30.2%	26.3%	26.6%
CHECK POINT SOFT	CHKP US	155.98	18,249	13.2x	12.4x	5.9%	45.1%	5.8%
AKAMAI TECHNOLOG	AKAM US	88.74	13,517	9.5x	8.8x	6.5%	41.8%	6.8%
Average				33.0x	26.1x	18.8%	31.4%	13.9%
Median				17.8x	17.6x	15.6%	26.3%	9.5%

Source: Bloomberg, CBR

Disclosures:

This report was produced by Independent European Research, LLC dba as Chain Bridge Research ("Chain Bridge"), and is intended only for use by the recipient. All materials published by Chain Bridge are intended for use only by professional, institutional, buy-side investors. Use by the general investing public is prohibited. The information and analysis contained in these publications are copyrighted and may not be duplicated or redistributed for any reason. Chain Bridge reserves the right to refuse any subscription request based upon the above criteria. Companies and individuals residing in Hungary, and affiliates of firms based in Hungary are prohibited from subscribing to the services of Chain Bridge Research

Chain Bridge Research
88 Pine Street 31st Floor
New York, NY 10005
Tel (New York): +1-646-839-5566
Tel (New York): +1-212-233-0100
www.chainbridgeresearch.com

Neither the information, nor any opinion expressed, constitutes a solicitation by Chain Bridge for the purchase or the sale of securities. This publication does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual investors. It is intended only for investors who are "eligible counterparties" or "professional clients", and may not, therefore, be redistributed to third parties without the express written consent of Chain Bridge. The information set forth herein was obtained from publicly available sources that we believe to be reliable. While due care is taken by Chain Bridge in compiling the data and in forming its opinions, Chain Bridge gives no warranty, express or implied, and it does not guarantee the accuracy or completeness of the information provided. Additional information is available upon request.

Chain Bridge manages conflicts identified through its confidentiality and independence policies, maintenance of a Stop List and a Watch List, personal account dealing rules, policies and procedures for managing conflicts of interest arising from impartial investment research, and disclosure to clients via client documentation. Chain Bridge and/or persons associated with it may own securities of the issuers described herein and may make purchases or sales after this report has been disseminated to Chain Bridge institutional subscribers.

The following Research Analysts employed by Chain Bridge contributed to this report: Gabor Szabo, CFA, Gabor Kokosy, Theodor Dan Le. Chain Bridge's home office is at 88 Pine Street 31st Floor, New York, NY. Its branch office is located at 31 Felhevizi u. 1st Floor 4, 1025 Budapest, Hungary. The firm's branch office is where information about the valuations herein are located, unless otherwise indicated in the report.

At the time of this report, there are no planned updates to the recommendations. For previous recommendations concerning financial instrument(s) or issuer(s) mentioned in this report – if any – or other financial instrument(s) and issuer(s) during the preceeding 12-month period, please refer to our [website](#).

The reports published by Chain Bridge intend to provide clients with a view regarding the various risks and critical factors impacting the completion of certain mergers and acquisitions. Therefore, the opinions expressed do not fit with traditional buy, sell, and hold ratings.

PCS Research Group, LLC, an affiliate of Chain Bridge, is the exclusive marketer and distributor of this and other reports produced by Chain Bridge. Neither Chain Bridge nor PCS is an investment firm or a credit institution. Affiliates of Chain Bridge and PCS include investment firms that are SEC registered investment advisers and FINRA Member broker-dealers (together, "Affiliates"). The Affiliates have not performed and do not expect to perform investment banking services for the issuer(s); are not market makers, and are not party to any agreements with the issuer(s). The issuer(s) has not been a client of Chain Bridge, PCS or the Affiliates. Chain Bridge, the research analysts, PCS, and the Affiliates have not received any compensation from the issuer(s). Chain Bridge research analysts' remuneration is determined exclusively by Chain Bridge management, and is based on the quality and accuracy of the analyst's research. Investment firm Affiliates do not contribute to appraisals of Chain Bridge analysts. Remuneration from Chain Bridge to research analysts is not linked to investment firm activities of Affiliates. Conflicts of interest for employees of PCS and Affiliates are managed by a formal code of ethics and information barrier procedures which include, but are not limited to, policies related to restricted lists, personal trading rules, and the prohibition of misuse of material non-public information.

Copyright 2024 - Chain Bridge Research.