

# A long-courted cybersecurity company in its second delisting

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*“The need for personalized, innovative, and intuitive online protection services has never been greater, and McAfee is ideally positioned to meet this demand and continue to build its leading technology platform and loyal customer base.”* - Bruce Chizen, Senior Advisor at Permira and newly appointed Chairman of McAfee’s Board of Directors

## Deal Overview

- Acquirer: Condor BidCo Inc. representing Advent International, Permira, Crosspoint Capital Partners, etc.
- Target: McAfee corp., (formerly listed on NASDAQ: MCFE)
- Industry: Computer Software, Cybersecurity
- Transaction Amount: \$14B
- Announcement (Closing) Date: Nov. 8 2021, (Mar. 1 2022)
- Target Advisor: Goldman Sachs & Co. LLC and Morgan Stanley & Co. LLC

- Acquirer Advisor: JPMorgan Securities LLC, Citigroup Global Markets, Inc., etc.

On Nov. 8, 2021, a consortium of private equity funds headed by Advent International announced the acquisition of McAfee, a leading provider of consumer security software with more than 600 million users globally.

Talks regarding a restructuring of McAfee started already in 2019, when TPG and Intel, evaluated several strategic alternatives, including a potential initial public offering and the potential acquisition of their joint venture entity OpCo LLC by a third party. Advent, Permira, and GIC, among others, all entered into separate confidentiality agreements with OpCo LLC at the time. No deal resulted from negotiations, which was why OpCo LLC moved forward with a listing of McAfee in October 2020 at a valuation of \$8.6B. In May 2021, Goldman Sachs and Morgan Stanley contacted 23 potential financial and strategic parties including Advent, Permira, CPPIB, and Crosspoint. Out of these parties, four submitted non-binding indications of interest for an acquisition of McAfee. Advent, Permira, and Crosspoint Capital Partners’ joint bid at the time was \$26.87 per share. Goldman Sachs encouraged them to improve their bid and act quickly, but Permira indicated that the consortium continued to have open diligence issues that prevented them from making a final proposal. McAfee thus terminated discussions with the consortium and instead executed a public offering of additional 20,000,000 Class A shares which got executed in September 2021. In the month after, Advent, Permira, Crosspoint, and CPPIB submitted a revised non-binding acquisition proposal to McAfee at a per-share price of \$25.00, but McAfee wanted the consortium to further improve the of-

fer price. On November 8th, 2021, the consortium did so and publicly announced the entry into the merger agreement in which the investor group aimed to acquire all outstanding common shares of McAfee, paying a per-share price of \$26.00 in an all-cash transaction. In February 2022, the shareholders of McAfee Corp approved the transaction at this price. Consequently, this resulted in McAfee’s final drop-out of the Nasdaq in March 2022.



Figure 1: Source: FactSet

## Companies Overview - McAfee

The company’s journey began with the founding of “McAfee Associates” by John McAfee in 1987. The firm brought the first commercial antivirus solution to market. In August 1993, John McAfee stepped down as CEO and sold all shares. During the 2000s, McAfee was public for the first time and expanded from web to mobile services. In 2010, McAfee got acquired by hardware manufacturer Intel valuing it at \$7.68B, yet the plan to embed security into chips failed and McAfee wasted time, which it could have used to move into the fast-growing world of cybersecurity. In 2016, TPG Capital obtained a 51% stake in McAfee in a joint venture agreement with Intel through which McAfee was spun off to become a separate entity again. Christo-

pher Young was named CEO and very successfully focused on collaborating with all cloud providers in the following years. In October 2020, McAfee IPOed again and soon after sold its enterprise business for \$4B to Symphony Technology Group, which made McAfee a pure-play leader in online protection for consumers. The reason for this divestment was the better growth profile of the consumer business with a net revenue CAGR of 16% compared to a mere 4% for the enterprise business.

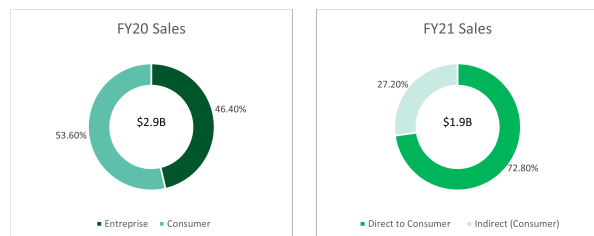


Figure 2: Source: FactSet - own illustration

Post-IPO the company still held onto considerable debt from its private equity days. The leverage was since reduced significantly as shown in figure 3 below, which corresponds to a reduction of total long-term liabilities of \$6.8B in 2018 to \$5B in 2021. This has partially been achieved by issuing stock and using the proceeds to pay off debt.

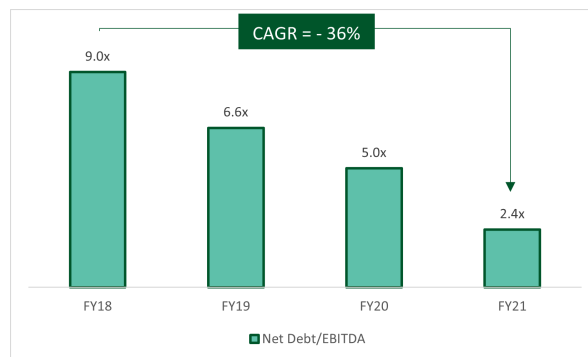


Figure 3: Source: FactSet - own illustration

The payback of principle debt has impacted McAfee’s ability to reinvest in growth avenues. However, then-CEO Peter Leav realized top-line improvements via price increases, new partner programs, and good customer retention rates in the past couple of years. Another important metric is Average Revenue Per Customer (ARPC) which has been improving in the past couple of years.

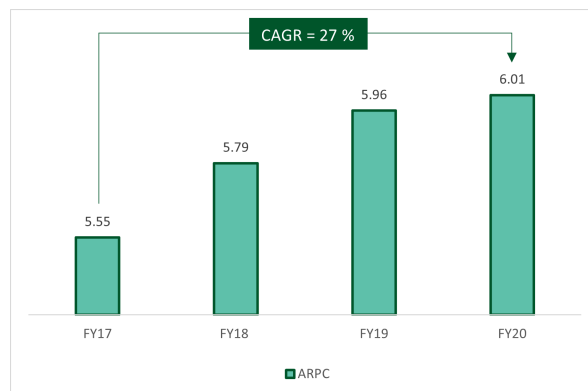


Figure 4: Source: McAfee Q1 2021 earnings presentation - own illustration

McAfee has since expanded its product portfolio, enhanced its go-to-market strategy, and pursued strategic M&A including the acquisition of FireEye Inc. and Skyhigh Networks Inc., which strengthen McAfee’s real-time analytics and cloud protection services. McAfee wants to focus even more on the go-to-market strategy in the coming years as well as building its data science capabilities for improved online protection. Peter Leav will be succeeded as President and CEO by Greg Johnson who was chosen because of his 25 years of experience in marketing consumer products.

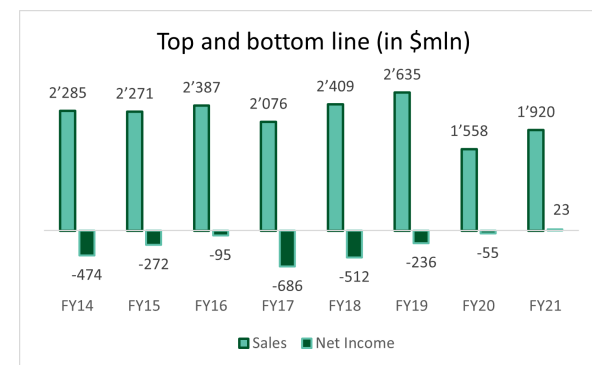


Figure 5: Source: FactSet - own illustration

The drop in net income in 2017 as shown in figure 5 stems from newly generated administration costs and other expenses related to the spin-off and the change in management and strategy. Nonetheless, we observe that management has made increasing bottom-line improvements. The top-line shows less of a trend. However, for companies that give their suppliers part of the sales revenue, it might make more sense to look at the net rather than gross sales which have been increasing consistently since 2018 in McAfee’s case. The firm heavily relies on third parties as distribution channels for products and

services, which is why it emphasizes net revenue in its own reportings.

McAfee offers a bunch of security features in its products that can't be found in average anti-virus software. Instead of multiple software systems for different tasks, McAfee offers a multi-purpose program that offers more convenience. Additionally, it has very competitive pricing packages for the first-year subscription, which is one reason for its popularity. Below you see some of the product features designed to protect consumers in many aspects.

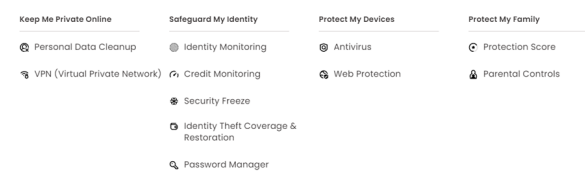


Figure 6: Source: mcafee.com

After T-Mobile recently confirmed a data breach affecting 7.8 million current and 40 million past and prospective customers, they signed a multi-year exclusive relationship with McAfee to improve security standards. Similar agreements were also made by McAfee with Telstra, Australia's leading telecommunications company as well as VISA partners in the UK. These partnerships increase cash flow certainty for the new private equity investors.

### Companies Overview – Condor BidCo Inc

Condor BidCo Inc and its subsidiary are each affiliated with Advent International Corporation, Permira Advisers LLC, Crosspoint Capital Partners L.P., and others. Advent is a private equity firm focused on investments in five core sectors, in-

cluding business and financial services, health care, industrial, retail, consumer, and technology. Its 259 investment professionals have made transactions in 390 companies across 42 countries and had \$86B in assets under management as of September 2021. Advent has been building its industry knowledge in cybersecurity through six prior investments over the past 2 years. Permira is a private equity firm focused on tech, with a particular focus on digital consumer and enterprise cloud end markets. Founded in 1985, it has \$65B assets under management and employs over 360 people across Europe, North America, and Asia.

Bryan Taylor, managing partner at Advent, formerly served on the board of McAfee and was a leading figure in the McAfee deal. Bruce Chizen, who served on 11 boards of major US companies and is the former CEO of Adobe, as well as Brian Ruder, the Co-Head of Technology at Permira, newly joined McAfee's board. Greg Clark, managing director at Crosspoint Capital, is also joining the board and contributes with his deep industry knowledge given the Crosspoint's focus on investing in cybersecurity, privacy, and infrastructure software. Mr. Clark was the former CEO of Symantec, a cybersecurity company which got acquired by Broadcom.

Back in 2020, Advent International and Crosspoint already tried to acquire the enterprise business that was carved out of McAfee, but neither Crosspoint nor Advent reached the final round of this process. Advent commented that customer loyalty is one of the attractive characteristics of McAfee. Consumers buy from globally recognized brands they trust, and the sponsors see an opportunity to address the rising consumer concerns in an increasingly complex internet. Permira stated that McAfee

stands out for tailoring its services to individual needs through its broad platform and for being very intuitive to use. McAfee's size enables the firm to assess and tackle cybersecurity risks more holistically, which gives them a better understanding of future cyber risks. Another attractive point is the extensive partner ecosystem, which functions as an economic moat. Lastly, the rigorous commitment of McAfee to product development is another point that stands out from a growth perspective.

### State of the Industry – Cybersecurity

Cyberthreats are growing in volume and scale. The shift to remote working and a rise in cyber-attacks have spurred demand for security software. But there are also some bigger trends like the internet of things which has dramatically expanded the "attack surface" available to intruders creating unprecedented security challenges. The coming decade will furthermore be determined by the need to introduce AI into cybersecurity software to be able to combat the more sophisticated threats arising on the web and to find out where attacks are coming from. Morgan Stanley Research estimates that total direct revenues at security software vendors have been expanding at a 12% three-year CAGR—which makes it one of the fastest-growing tech subsectors. In fact, cybersecurity has outperformed its software peers in the last couple of years, and valuations remain above pre-pandemic levels. Cybersecurity is a massive growth industry even in the short term, though this is not true for all subsegments, e.g., antivirus applications. Analysts predict that the industry will grow at another 10.4% annually through 2023, led by 33% annual cloud security growth. Statista estimates the cybersecurity market to grow from \$218B

to \$345B, while other forecasts for 2030 talk about a \$470B market value, which would correspond to a CAGR of 9.5%.

Global Macro Trends Driving Growth in Consumer

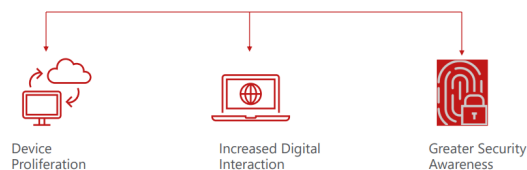


Figure 7: Source: McAfee Q1 2021 earnings presentation

The consumer segment is expanding consistently because of the growing number of devices and rising data production per device, as well as increasing awareness about and fatality of successful cyber-security attacks. According to a sentiment study of McAfee conducted in 2022, 80% of consumers are concerned that their data is being sold, and 53% believe they will become a victim of identity theft.

The changing competitive landscape, including acquisitions, dispositions, and solicitations by cyber-security players as well as OEMs requires taking action to stay relevant. M&A is critical in the heterogeneous cyber security environment, according to former McAfee CEO Chris Young. But even though the market is competitive, cybersecurity is simultaneously a team effort against malicious predators, which led to the formation of the “Cyber Threat Alliance”, an intelligence-sharing platform of which McAfee has been a member for many years now.

## Deal Structure

To evaluate the transaction price paid by the private equity consortium, we conducted a comparable company analysis. We organised our purely consumer-focused comparable firms (Avast, MicroTrend, and Gen Digital) into a separate subset, whilst the subsequently listed firms focus mainly on enterprise solutions. Although Avast is now part of Gen Digital (previously called Norton LifeLock), it was listed as a separate entity before McAfee’s acquisition was announced (November 4th, 2022). We, therefore, included Avast as a separate comparable. Although we found Kaspersky and ESET to be suitable consumer-focused comparables, they are not publicly listed and thus do not have a share price available.

Company Name	Market Data			Financial Data (NTM)		Valuation	
	Price* (\$/Share)	Market Cap (\$)	EV (\$)	Sales (\$)	Adj. EBITDA (\$)	EV/Sales	EV/Adj. EBITDA
Avast	6.6	7.89	8.56	0.983	0.454	8.7x	18.9
Trend Micro	57.37	8.03	5.8	1.619	0.461	3.6x	12.6x
Gen Digital	24.95	14.41	16.35	2.855	1.264	5.7x	12.9x
<b>Median of subset</b>						<b>6.0x</b>	<b>14.8x</b>
Qualys	127.04	5.26	4.9	0.571	0.161	7.0x	30.4x
Fortinet	67.68	55.72	54.22	5.326	0.843	10.2x	64.3x
Zscaler	331.9	46.96	46.27	1.5	-0.353	30.8x	-
CrowdStrike	279.62	60.39	59.17	2.233	-0.031	26.5x	-
<b>Median of entire set</b>						<b>13.3x</b>	<b>27.8x</b>
<b>Median of entire set</b>						<b>8.7x</b>	<b>18.9x</b>
McAfee	21.21	4.3	6.428	1.922	0.696	3.3x	9.2x
McAfee (Offer price**)	26	4.89	7.018	1.922	0.696	3.6x	10.1x

\*Share prices correspond to Nov. 4th 2021  
\*\*Offer price corresponds to the final transaction price paid

Figure 8: Source: FactSet - own illustration

Comparing McAfee’s offer price multiples to those of the consumer-focused subset (closest to McAfee’s product offering), we notice a 36.8% discount w.r.t the median sales multiple and a 19.8% discount w.r.t the median EBITDA multiple. This suggests that McAfee was notably undervalued in this transaction. The discount is even larger when considering the entire set, as the enterprise-focused providers show even higher multiples. This is a rather unexpected result, considering that the consumer cybersecurity sector shows a higher CAGR than the enterprise sector. Furthermore, Zscaler

and CrowdStrike are unprofitable. In hindsight, a possible explanation could be that these equities were simply overvalued by the market at the time of the transaction. The equity value of CrowdStrike slumped 47.7% since November 4th, 2021, whilst Zscaler suffered a 58% blow to its share price. Their current multiples are thus significantly lower. Furthermore, financial buyers, the Advent consortium included, generally pay a low premium in transactions, which in this case amounted to 16.27% compared to the avg. share price 30 days before the transaction. Overall, we believe McAfee’s righteous enterprise value to be \$8.5-11B, which compared to the \$7B that was implied by the transaction price paid signals that the consortium might have made a good deal.

## Potential Risks & Potential Upsides

According to Gartner, the internet of things and cyber-physical systems pose security risks that are top concerns of executives for the next 3-5 years. For McAfee, the area of automated home security and smart home should be of special interest, due to its focus on the consumer segment. Another emerging opportunity for McAfee is 5G because related security standards are complex and targeted attacks are likely to increase. The opportunity for McAfee specifically rises in the mobile segment, which will be even more important in the future since mobile devices are becoming a gateway for the interaction of human beings with their environment. McAfee’s home ground - the antivirus software market - is shrinking, and the company might eventually even get pushed out of it by Microsoft’s built-in products. McAfee needs to find another core product where it can obtain a dominant market share. For McAfee

to maintain or improve its results, it is important to retain existing customers and cross or upsell them on their solutions. The customers have no obligation to renew their subscription with McAfee upon expiration, which means a heavy customer focus is required. A major risk is the increasing competitive pressure, which could cause McAfee to lose market share. Both the technological requirements and pricing competition is expected to increase. Furthermore, the expanding sophisticated attacks, changing requirements, current economic pressures, changing consumer behaviour, and market consolidation might all impact McAfee's ability to compete. Another risk is the firm's reliance on third-party sales-channel partners. If those partners choose not to market and sell McAfee solutions to their customers, its sales could be adversely affected. Historically McAfee has been able to manage this risk, which has put them in an advantageous position. Partners, however, might replace McAfee's services with their own or with competitor products. And lastly, restrictions imposed by future indebtedness may limit the company's ability to operate and take certain actions, which is of special concern when private equity firms have control over the steering wheel and potentially add even more debt.