

Google Acquires Mandiant for \$5.4 bn

SORTINOMAGROUP.COM

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Source: Forbes



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DEAL INTRODUCTION

DETAILS ABOUT THE DEAL

- Google LLC announced the successful completion of its acquisition of Mandiant for \$5.4 billion, in an all-cash deal, in September of 2022, giving a value of \$23 a share.
- This purchase would represent a 57% premium to Mandiant's 10-day volume weighted average price (as of 7th February).
- Shareholders in Mandiant will not be entitled to shares in Google following the merger, according to Mandiant's 8K form from March 2022 shares will be converted into \$23.00 in cash without interest.

8th March 2022
Google announce
bid of \$5.4bn for
Mandiant

3rd June 2022
Mandiant share
holders meet and
agree to
acquisition

Mandiant is
successfully
acquired and
integrated into
Google cloud
12th September
2022



REASONS FOR M&A DEAL

- **Mandiant is a well-known name in the cyber security space, providing military-grade services to companies and the US Federal government. As a global firm that provides cloud infrastructure for thousands of businesses around the globe Google cloud needs high-level cyber security to ensure its clients have reduced risk of cyber-attacks. In 2021 there was a 105% surge in ransomware cyberattacks, prompted by the “work from home” initiative meaning firms are forced to pay to ensure their data and equipment can still be used.**
- **Another reason for this acquisition is Google’s competition in the form of Amazon’s AWS and Microsoft’s Azure both of which provide robust in-house cyber security solutions to their clients, in addition to the acquisition of smaller cyber security firms to bolster their defence. This acquisition will bring Google cloud back into competition with the front runners as Mandiant has already proved its skills in threat intelligence and threat prevention. For example, Mandiant was responsible for uncovering the SolarWinds hack attributed by US officials to Russia’s foreign intelligence services.**

MANDIANT



Source: Yahoo Finance



INDUSTRY OVERVIEW: CYBERSECURITY

WHAT IS CYBERSECURITY?

Cybersecurity is the application of technologies, processes and controls to reduce the risk of cyber-attacks and protect internet-connected systems from unauthorized exploitation.

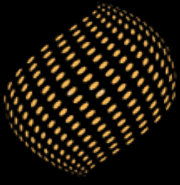
In 2022, the average cost of a data breach reached USD 4.35 million globally, including the expenses associated with discovering the breach, downtime and lost revenue, as well as the damage to a company's reputation. Organizations that implement an effective cybersecurity strategy can reduce the cost, lifecycle and impact of breaches when they occur.

TRENDS FOR 2022

Security Consolidation: Prevents security gaps and inefficiencies caused by complex, disconnected security architecture through security platforms created by a single vendor. Consolidated security platforms will offer higher efficiency, improved visibility and lower total cost of ownership (TCO) than more complex architecture.

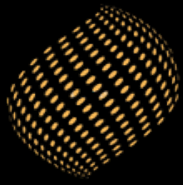
Cybersecurity Mesh Architecture (CSMA): Gartner developed the CSMA concept, which facilitates the implementation of security solutions from different vendors within the same architecture, allowing the product to achieve specific security goals. CSMA is said to be well-suited to the current shift towards hybrid, multi-cloud infrastructure, where various security solutions may need to be deployed by firms.

Cloud-Native Application Protection Platform (CNAPP): As more organizations adapt their cloud infrastructure to optimize processes, new cloud-focused security solutions are necessary to combat cloud-related security threats. CNAPPs integrate practices into a single cloud-native solution, helping organizations minimize visibility gaps and optimize cloud security architectures across application cycles.



HISTORICAL TRENDS

- **In 1987, several innovators built and released commercial antivirus. For example, in the US, John McAfee founded McAfee and released VirusScan, while three Czechoslovakians produced the first version of the NOD antivirus.**
- **During the 1990s, the growth of the world wide web meant more people began posting their personal information online. As a result, there were increased network security threats, as organized crime groups saw opportunities to steal data from individuals and governments. As a result, companies had to build firewalls and antivirus programmes on a large production scale to protect consumers from online threats.**
- **Over the 2000s, crime organizations began to fund the professional execution of cyberattacks heavily. To combat this, governments started giving more severe sentences to hackers, and companies harnessed the growth of internet security to further protect the public from cyberattacks. However, the rapid growth of the internet meant new viruses came into existence and posed a more significant threat to web users.**
- **Over the last decade, the cybersecurity industry has continued to grow at a rapid pace. Statista predicts that the global cybersecurity market will reach \$345.4bn by 2026, suggesting high potential for companies to implement cybersecurity solutions and expand into the industry.**



ACQUIRER OVERVIEW



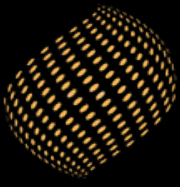
TICKER: GOOGL

GOOGLE LLC

- Google LLC, a subsidiary of the world's largest conglomerate, Alphabet Inc, specialises in providing search engine, advertising and cloud computing services to its customers.
- For this deal, we will be focusing on Google Cloud (cloud computing services division), Google Cloud offers a wide range of services most notably its data centres.
- Google Cloud currently operates 21 data centres around the globe following an investment injection of \$13 Billion in 2019, with plans for a further \$10 Billion across the US.
- The data centres operated by Google ensure their services such as internet, storage and virtual machines (VMs) can continue to run around the clock, ensuring their consumers are always able to access their data.

BUSINESS MODEL

- Google LLC operates a multi-sided business model (MSPs), meaning that Google's only goal is to connect you the consumer with a firm that you wish to purchase from. Google acts solely as the intermediary to connect clients and firms through advertisements or pop-ups.
- Google is a prime example of a "hidden" business model, meaning that its consumers do not pay for the platform, and revenue comes from advertising where firms pay large sums to ensure their ad is the first you see.
- In 2019 80% of Google's revenue came from advertisements, totalling \$134.81 billion.

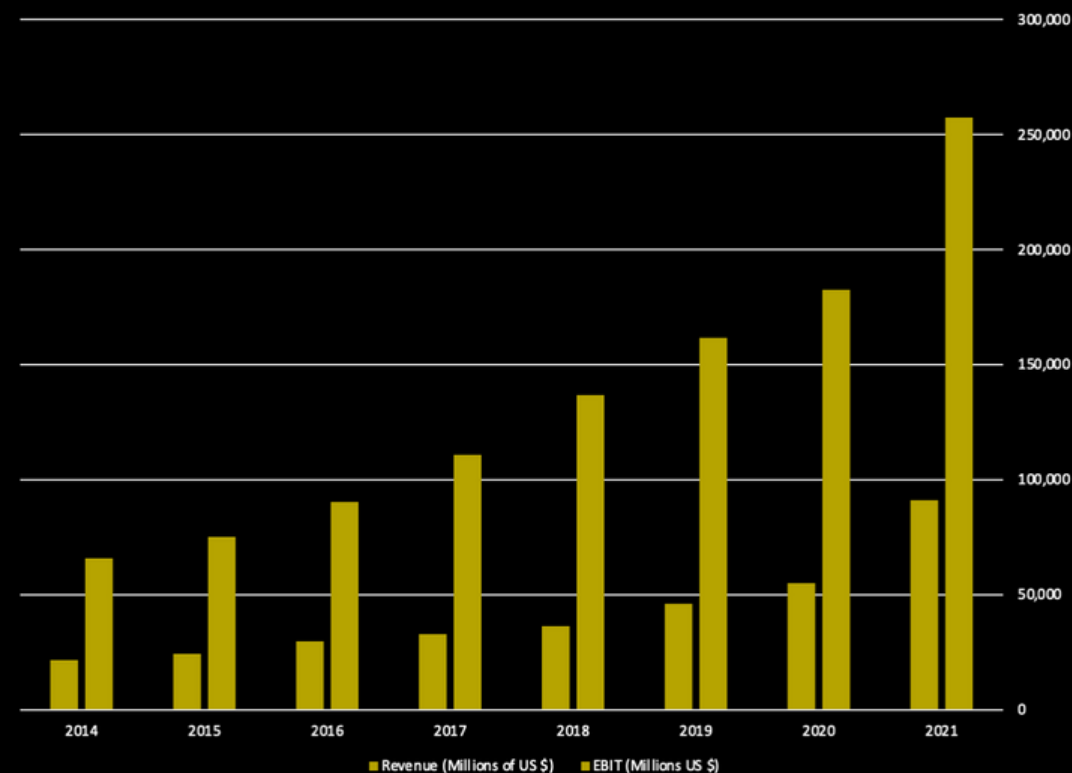


ESG PRACTISES

- By 2030 Google aims to not only achieve net zero carbon emission but also be the first company to operate carbon-free energy 24 hours a day 365 days a year.
- Furthermore, Google data centres are twice as efficient as their competitors with six times the computing power all whilst releasing zero GHG (greenhouse gas) emissions.
- Google also strives to achieve maximum use of finite resources, meaning that 71% of all Google waste is diverted from landfill and is put towards sustainable uses.
- Google is a market leader in its approach toward sustainability and its ESG practices, meeting its 2023 targets would be a huge step in proving that all firms are capable of reaching net zero and reducing their effect on the climate crisis.

KEY FINANCIALS

Alphabet Inc showing EBIT and revenue in million USD





TARGET OVERVIEW



TICKER: MNDT

MANDIANT

Mandiant is an American cybersecurity firm that provides global public and private organisations with early threat insights. Mandiant services include cyber threat intelligence solutions, strategies, and other platforms for international businesses and government organisations to deal with cybercrimes and reduce threats of hacking.

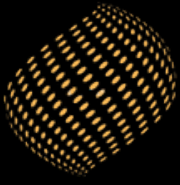
KEY FINANCIALS

Q2 2022 has recorded a revenue of \$138 million, an increase of 21 percent from the second quarter of 2021, and an annualised recurring revenue of \$306 million, an increase of 25 percent from the end of the second quarter of 2021.

Fiscal Period: December	2018	2019	2020	2021	2022	2023
EBITDA	110	115	174	-16,8	-269	-195

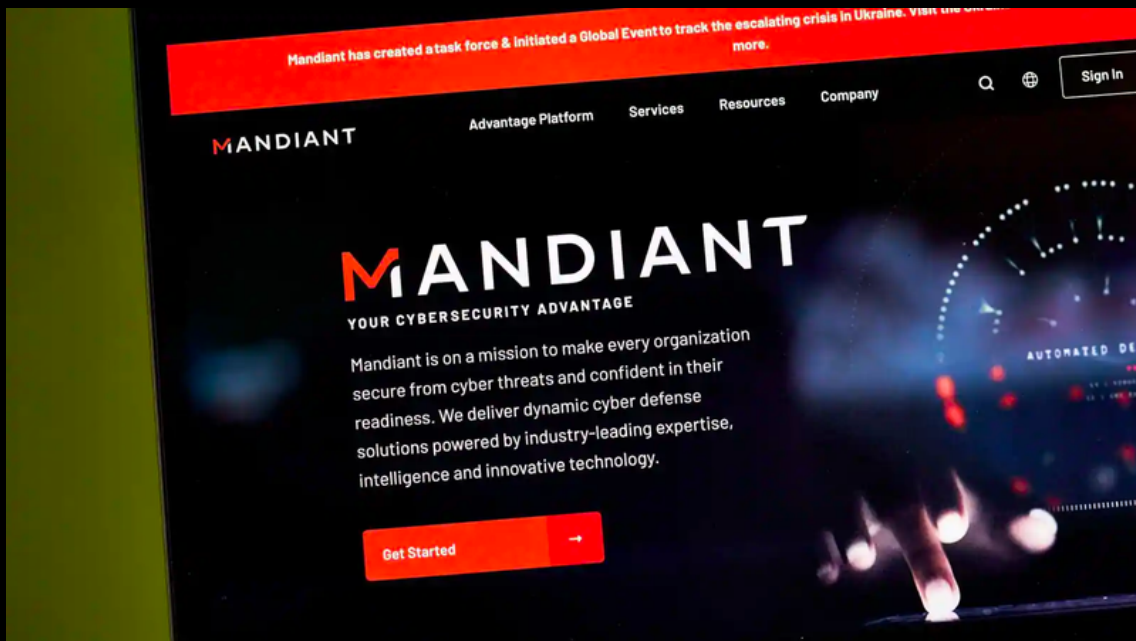
ESG PRACTISES

Mandiant is working to evaluate energy use and sources worldwide, despite its locations being partial leases of larger complexes. Mandiant is already taking measures to conserve water through flow regulators and automatic faucets in their breakrooms and lavatories and reduce electricity use with motion sensors.



BUSINESS MODEL

- Mandiant operates on a **B2B model** by providing various services related to cyberattacks along with security consulting for many organisations and enterprises.
- Its main product is Mandiant Advantage SaaS, a software as a service platform that delivers current intelligence and alert investigation, amongst other services. This multi-vendor XDR platform provides security teams of all sizes with experience and frontline intelligence. The platform is an automatic format that is powered through the automation of Mandiant expertise that automatically controls its customer's existing security investments. The Mandiant Advantage Platform also offers flexible delivery of engagement as per customers' requirements. The platform also constantly monitors its customers' attack surface and internal controls to drive prioritisation and focus on any kind of threats.



Source: Mint



DEAL ANALYSIS

STRENGTHS

- The Google Cloud platform can now offer end-to-end IT security solutions to customers by harnessing Mandiant's cybersecurity capabilities.
- Mandiant's aim to 'work together and jointly defend customers', as suggested by its CEO, aligns strongly with Google Cloud's vendor-agnostic outlook towards threat protection.
- The investment will also enable Google to address security concerns over cloud adoption through Mandiant's military-grade defence against state-backed hackers.

WEAKNESSES

- Google's acquisition of Mandiant is occurring at a time when competitors such as Amazon's AWS and Microsoft's Azure have already established themselves as market leaders – Google's efforts to push into the cloud may be too late.
- Another potential issue is that Google will likely see minimal short-term profits following the acquisition, with a greater focus on reversing its operating loss of \$890 million in the long term.



DEAL ANALYSIS

OPPORTUNITIES

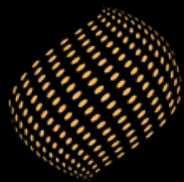
- Synergistic areas such as XDR and Managed Defence will enable access to a market of over \$45bn for Google.
- Mandiant's focus on studying hacker infrastructure and funding mechanisms, facilitated by their global threat intelligence team, can help Google Cloud to differentiate its security solutions from competitors and generate revenues immediately from cloud subscription services.

THREATS

- The deal would be Google's second-largest ever, and so is likely to come under scrutiny by regulators.
- The deal may not align with Google's future cybersecurity acquisitions, which could perhaps lead to a conflict of its cloud processes in the long-term.



Source: Forbes



VALUATION ANALYSIS

DISCOUNTED CASH FLOW MODEL

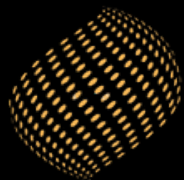
Enterprise Value	4,543
(+) Cash	1,154
(-) Debt	(384)
Equity Value	5,313
Diluted Shares	233
DCF Implied Share Price:	\$ 22.77
Google Cloud's Share Price Offer:	\$ 23.00
Acquisition Premium (Discount):	1.0%

Please click on the table to access full model.

As calculated by the Discounted Cash Flow (DCF) Analysis, the Mandiant stock was slightly undervalued at the time of Google's offer of acquisition. However, the valuation derived in the DCF suggests that Google only paid a 1% **premium** for Mandiant. This implies that the acquisition price was fair by Google.

The **sensitivity analysis** of the model suggested that the Mandiant's share price was in between \$14.18-\$39.51. However, the valuation analysis was based on the base case of the DCF where the implied share price lied in between the Mandiant's all time share price performance.

To build the model, various assumptions were taken into consideration to be able to obtain the **Terminal Growth Rate** (2.5% in the base case), and the **Weighted Average Cost of Capital** (WACC) (6.3% in the base case). Therefore, it must be noted that the share price obtained from the model was affected by these assumptions.



VALUATION ANALYSIS

COMPARABLE COMPANY ANALYSIS

Cybersecurity Enterprises	Low	High
Selected EBITDA Multiple	(22.89x)	(19.44x)
Implied Enterprise Value	5,829.36	4,950.86
Net Debt	383.86	383.86
Implied Equity Value	5,445.50	4,567.00
Implied Share Price	23.35	19.58
Premium (Discount) %	-1.50%	17.45%

Please click on the table to access full model.

Based on the comparable company analysis (CCA), Mandiant's valuation multiples appear to be close to the mean of the comparable group of companies, which includes 8 cybersecurity companies. Out of the 8, there were a wide range of cybersecurity companies in terms of market capitalisation and **EV/EBITDA** multiples. 5 out of 8 comparable companies appeared to have negative EV/EBITDA valuation multiples, following a similar financial performance as Mandiant. As a result, the range of the **valuation multiples** were large. Therefore, the mean and median valuation multiples were chosen for deriving the implied share price.

As a result of the multiples, the low and high **EBITDA** multiples were chosen to be (22.89)x and (19.44)x, giving the implied enterprise values of \$5829.36mn and \$4950.86mn, respectively. At the end of the valuation, the implied share price was found to be at least \$19.58 and at most \$23.35.

According to the implied share price of our model, Mandiant was purchased at a slight premium, which was around 17%. However, it must be noted that the different market dominance of the comparable companies used in the analysis made it harder to derive an accurate low and high valuation multiples.



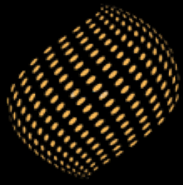
CONCLUSION

IMPACT ON THE INDUSTRY

The cybersecurity industry being largely unaffected by current general market volatility and macroeconomic uncertainty demonstrates the impact of the Google-Mandiant deal on reinstilling investor confidence, and playing a major part in this secular growth trend. This is evident in the sector's M&A activity, with a total of 148 cybersecurity M&A deals recorded during the first half of 2022, amongst which eight transactions have been identified to top \$1 billion, including the SailPoint and Mandiant deals, and private equity firm KKR's \$4 billion acquisition of Barracuda. The deal's potential for positive change can also be seen in the sector's overall increase in funding for research- this deal's monumental collaboration is driving innovation across the cybersecurity industry and augmenting threat research capabilities.

This combination of Google Cloud's existing security portfolio with Mandiant's leading cyber threat intelligence also means that these positive changes naturally specifically apply to the cloud security industry- evident in the growing attention to the cloud security market. According to a comprehensive market report by MRA, the cloud security market is expected to reach \$123.3 billion by 2032 at a CAGR of about 24.4%. A Statista public cloud services growth worldwide 2022 and 2023 report revealed that the public cloud services market is expected to grow by 30.5% in 2023 compared to 2022. Again, demonstrating the deal's potential for further developing investor confidence within this subdivision of the cybersecurity industry.

Overall, Google's acquisition of Mandiant has undoubtedly sparked a growth in interest in proactive security technologies, as opposed to the focus on reactive detection and response of the past few years.



GLOSSARY

B2B Business Model: B2B, or, Business to Business, is a business model in which a firm sells its products or services directly to other businesses.

EBITDA: Earnings before Interest, Tax, Depreciation and Amortisation. A useful measure to compare companies profitability.

EV/EBITDA: Enterprise Value 'Multiple', gives insight into the value of companies against their cash earnings less their non-cash expenses.

Premium: increased amount paid per share in comparison to the share price at the time of the M&A transaction, often presented as a percentage.

Sensitivity Analysis: The analysis of how a change in assumptions (inputs) can impact the output of a financial model.

Terminal Growth Rate: A growth rate that a company is expected to grow at forever based on the market and industry conditions.

Valuation Multiples: Financial tool providing one metric as a ratio of another; often used to compare similar companies.

WACC (Weighted Average Cost of Capital): Cost of capital used to represent a firm's after-tax costs from all resources.

