

More Australian cybersecurity deals expected come 2025 as companies face call to arms

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Proprietary

Summary

Cyber Security Act passed this week another sector tailwind

Sector players doubled from less than 800 in 2014 to some 1,400

Cybersecurity on the agenda in both board and deal rooms

The Australian cybersecurity sector is expected to see heightened deal volume in 2025 in line with the global trend, as domestic companies seek to arm against the daily barrage of cyberattacks, sector experts told *Mergermarket*.

For the 12 months to end-June 2024, the Australian Signals Directorate (ASD) reported one cybercrime every six minutes, with one in 10 related to critical infrastructure. Another sector tailwind is the passing of Australia's first standalone Cyber Security Act this week (25 November), exposing companies to litigation risk if they don't meet mandated practices.

"We're seeing a significant uptick in the global cybersecurity market, with a 10% increase in deal volume and a 15% boost in deal values year-over-year, said Justin Smith, MD of Australian transaction

management platform Ansarada. January to August 2024 saw 129 cybersecurity deals valued at USD 13.03bn, he noted.

"Companies are making acquisitions to fortify their cybersecurity defences in response to the escalating sophistication of cyber threats and the risks posed by technologies like generative AI, which is creating many M&A opportunities in cybersecurity," Smith said.

In Australia, the sector has grown exponentially in the past 10 years, with the number of cybersecurity businesses almost doubling from less than 800 in 2014 to some 1,400 now. Industry revenue grew at a CAGR of 2.3% over the past five years to AUD 1.9bn in 2024, according to research firm IBIS World.

All eyes on CyberCX

All eyes are on **BGH Capital**-owned **CyberCX**, which has reportedly seen its private equity (PE) owner delaying a sale that could be worth some AUD 2bn (USD 1.3bn) as its most likely suitor **Telstra** [ASX:TLS] is believed to be busy with other priorities.

If a CyberCX deal goes ahead next year, it will make 2025 the biggest year for Australian cybersecurity M&A, said **Spirit Technology Solutions** [ASX:ST1] MD Julian Challingsworth, who was CEO of **Tesserent** [ASX:TNT] prior to its acquisition by **Thales** in 2023 for AUD 176m.

Also on the PE front, **Five V Capital** has reportedly appointed **Houlihan Lokey** to offload its some 40% stake in cybersecurity tech company **Penten**, potentially for more than AUD 400m, after investing AUD 50m in the firm in 2021, as reported earlier this year.

Quadrant PE entered the space in 2023 with its investment in three New Zealand-based cybersecurity businesses - **Quantum Security Services**, **ZX Security** and **Helix Security Services** - for undisclosed sums.

PE firms target sectors with strong tailwinds, and with cybersecurity risk on the agenda of every board, this sector will increasingly be on their radars, said Bryce Thompson, Australia and New Zealand-focused advisory firm Jarden's head of technology investment banking, corporate finance.

Strategic buyers to feature

A range of strategic players, both domestic and international, are also likely to feature on the acquisition front, Jarden's Thompson added, citing as examples consulting companies, telcos, and outsourcing firms.

The UK has emerged as a leading player, as seen with the acquisition of **Darktrace** by Chicago, US-headquartered PE firm **Thoma Bravo** subsidiary Luke Bidco for USD 5.315bn this October, while the US also

remains a major market for cybersecurity, with significant investments in companies like **CyberArk Software** and **Wiz**, noted Ansarada's Smith.

On the home front, April saw California, US-based software investor **K1 Investment Management** make an AUD 470m tilt at cyber safety tech company **Qoria** [ASX:QOR], only to be rejected by the firm, which opted instead to raise AUD 30m and acquire data analytics company **OctopusBI** for AUD 5m in cash and 11,666,667 deferred consideration rights, as announced in October.

Earlier this month, full-service IT managed services and cybersecurity firm **ExciteCyber** [ASX:EXT] and [Spirit Technology](#) told *Mergermarket* they were interested in cybersecurity deals, while in September, managed IT services provider **Screwloose IT** flagged its first external capital raise to support growth plans, including cyber acquisitions.

As per company announcements, January 2024 saw digital services firm **5G Networks** [ASX:5GN] acquire **Security Shift** for AUD 4m, while in March cybersecurity and cloud services provider **Sovereign Cloud** [ASX:SOV] acquired **PCG Cyber**, **Venn IT** and **Arado** for AUD 30m.

Centre stage in deal rooms

And it's not just on the deals front, but also in the deal rooms that we can expect to see cybersecurity taking

centre stage. Companies with strong cybersecurity practices and a proven track record of protecting sensitive data may command higher valuations, while weak cybersecurity can significantly impact valuations, sector experts agreed.

Cybersecurity due diligence in deals across all sectors is at all-time highs, but especially so for software and internet businesses that collect and use client data, Jarden's Thompson said.

"Cybersecurity has become a pivotal factor in M&A deals and price negotiation, particularly for tech companies," agreed Ansarada's Smith. "Buyers are conducting rigorous cybersecurity due diligence to assess target companies' security posture, including data protection practices and incident response plans."

Data breaches experienced by companies planning to undertake or already in sale processes can impact not only price negotiations, but also viability of deals, noted FTI Consulting's Senior MD, Cybersecurity Wouter Veugelen. Buyers could even walk away from sales due to the uncertainty data breaches bring and related costs including potential litigation, he said.

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