

Acquirers without borders: Trustwave gets picked up by APAC telco Singtel

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While we were waiting for Trustwave to announce its next acquisition, the company, a well-known US-based MSSP, was scooped up by Singapore's largest domestic telco. The deal reminds us of Tata Motors' purchase of Jaguar Land Rover from Ford Motor in 2008. The response of the general US public when the Tata transaction was announced was similar to the security community's reaction to Trustwave's sale, which could be summarized in two short questions: 'Who?' and 'What?'

While other recent acquisitions have been larger in terms of industry buzz, direct market impact or deal size, Singtel's reach for Trustwave reminds us that security is a global market. As the tech industry grows outside the US, demand for security quickly and inevitably follows. Increased demand for security often results in the establishment of regulations and compliance standards – something Trustwave is well equipped to address. If even only part of the APAC security sector is positioned where the US was 8-12 years ago, Singtel is in the right place, at the right time, with the right deal.

Deal details

Singtel is paying \$810m for virtually all of Trustwave. (Trustwave CEO Robert McCullen retains a 2% stake in the company he has run since 2002.) It is the largest transaction inked by Singtel, which had recently been using M&A in an ambitious quest to build out its own mobile ad network. Singtel reports that Trustwave generated revenue of \$216m in 2014, valuing the company at basically 4x trailing sales. That's roughly a turn lower than the 5x trailing sales Dell paid in 2011 when it bought MSSP rival SecureWorks. No business, staff, technology or location changes are planned for Trustwave, which will become a stand-alone Singtel business unit.

The 451 Take

What does this deal mean for the US security and MSSP markets? Not much in the immediate future. We expect to see business as usual for Trustwave – just a lot more of it outside North America and Europe. In Singtel's major markets, existing vendors will face stiff new competition from Trustwave, a company with mature offerings that can easily scale to meet customer demand. As for Singtel, the transaction gives the island nation's premier telco direct access to US and European markets. Singtel has hinted that it might not be done with enterprise security-related M&A, and Trustwave itself is due for another acquisition late this year or early next year to continue growing its TrustKeeper portfolio of managed offerings.

Deal rationale

Many telcos complain that the opportunity to provide additional business services is narrowing, pointing part of the blame at increasingly encrypted Internet traffic. Some have come to the conclusion that it makes sense to *become* security providers. With demand for security products and services growing in the Asia-Pacific region, the Trustwave buy gives Singtel a broad portfolio of security services to sell as well as R&D capabilities. It also gives Singtel a significant presence in North America and Europe – two regions it currently doesn't pursue with its core product portfolio.

Acquirer:

Singtel

Target:

Trustwave

Subsector:

MSSP

Deal value:

\$810m

Date announced:

April 8, 2015

Closing date, expected:

Q3 2015

There is a precedent for telcos going outside their borders to nab infosec vendors or service providers. Japan-based NTT is the most notable after buying German MSP Integralis, picking up Omaha-based Solutionary right after snagging Australian MSSP earthwave, and nabbing a Swiss MSSP called InfoTrust. BT bought Counterpane in 2006. Verizon acquired MSSP Cybertrust in 2007, which itself was the outcome of several transactions, including a merger of equals between BeTrusted and TruSecure, as well as the purchases of Ubizen in 2006 and Vigilinx in 2003. And in 2009, AT&T snared VeriSign's security consulting and integration business.

As for Trustwave, the deal gives it a greater reach into Singtel's primary markets and a major channel to sell through. Singapore isn't just a major APAC tech/Internet hub, it is widely used by European-based companies as well. Singtel, as a communications provider and hub, could be a welcome additional source of threat intelligence data to further enhance Trustwave's existing sources.

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Acquirer profile

For the US reader, Singtel is analogous to a major US telco like Verizon. The company is a group of subsidiaries that provide personal services (e.g., home/mobile phone, Internet, TV) and business services (phone, Internet, cloud, enterprise mobility, datacenter and cloud hosting, etc.). For comparison, Singtel is about one-tenth the size of Verizon in terms of revenue and employees. The company has a significant presence in Asia, Africa and Australia, with customers in 25 countries and more than 500 million mobile users. Singtel currently has 22,000+ employees. Its most recent financial reports show revenue of \$13.5bn, with \$1.3bn of that coming from enterprise products and services.

Singtel's success is especially significant for Singapore, as it has helped the country shape its image as a central communications hub. Many hosting providers choose Singapore as the initial point of presence when expanding to APAC, for example. Also, the company isn't just traded publicly on the Singapore Exchange, it is the *largest* company on the exchange by market cap, and is majority owned by the Singapore government.

Target profile

Already very much an international company, Chicago-based Trustwave employs more than 1,200 people in 26 countries. Founded in 1995, the company grew by capitalizing on heavy demand for compliance-based managed services and consulting. It assures us that, while PCI has been a large part of its success, its strategy is still to leverage compliance initiatives to sell services. Over the past nine years, the vendor has paid more than \$238m for 16 businesses, both to expand its reach and enrich its technology. When asked about expanding into Singtel's markets, Trustwave pointed out that it already has offices in Australia, New Zealand and India.

A majority of Trustwave's three million business subscribers are enrolled in compliance management products - namely the PCI SAQ TrustKeeper portal, which is often sold through payment processors and acquirers. Despite this, the company reports that tens of thousands of customers pay for services. Services make up the majority of its revenue, with managed services being the fastest-growing segment. Trustwave has assembled one of the most comprehensive integrated MSSP offerings on the market, centered on its cloud-based TrustKeeper portal. Most of the company's claimed 10,000 enterprise security customers are likely paying for at least one MSSP service.

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