

WINDSOR DRAKE

# Network Security & Firewall Software Valuations: Q2 2026

MAY 2026

Windsor Drake · Market Intelligence

## A Bifurcated Tape

The network security cohort is splitting sharply between scaled platforms and standalone point tools.

- Hyper-growth platform leaders (Cloudflare, CrowdStrike, Palo Alto, Zscaler) traded near **18.5x** median EV/Revenue in 2025.
- Mature on-prem firewall incumbents now anchor near **14x EV/EBITDA**.
- Pure-play **NDR** and legacy appliance vendors face XDR encroachment and multiple compression.
- The middle of the table is hollowing as buyers concentrate spend at the platform layer.

## Sector Fundamentals

The category's operating math remains the strongest in software.

- Zscaler posted a **78** Rule of 40 score in its most recent quarter (FY2026 reporting).
- Best-in-class net revenue retention sits above **120%** for the platform leaders.
- Free cash flow margins of **~27%** are now standard for the scaled cohort.
- Cyber budgets remain top-three enterprise priorities into 2026.

## Subsegment Spread

The Q2 2026 spread by subsegment is the widest Windsor Drake has tracked.

- **Cloudflare** screens at roughly **27.6x** forward revenue (Qatalyst/2026 calendar).
- **Zscaler** prints **~13.3x** forward revenue at 26% growth.
- **Fortinet** anchors at **~10.3x** revenue, valued on EBITDA-quality cash flows.
- Subscale point vendors compress toward **4x to 6x**, the legacy multiple band.

## Macroeconomic Backdrop

Monetary policy is supportive but not stimulative for high-multiple security assets.

- The Fed funds range holds at **3.50% to 3.75%** after the April 2026 hold.
- The April vote split 8 to 4, the widest FOMC dissent since 1992.
- March 2026 dot plot anchors year-end policy in the 3.25% to 3.75% band.
- Stable discount rates remove monetary policy as a re-rating catalyst either way.

## Mega-Deal Consolidation

Strategic consolidation hit historic scale in Q1 2026.

- **Palo Alto Networks closed its \$25B acquisition of CyberArk** on 11 February 2026.
- Cybersecurity M&A deal value reached **\$47B in Q1 2026** alone.
- **38** cybersecurity deals were announced in March 2026 alone.
- Platformisation has become the controlling thesis for buyer behaviour.

## The AI Security Premium

AI security has become a measurable, primary driver of valuation.

- **Google paid \$32B for Wiz** (announced March 2025), the largest pure-play cyber deal ever.
- By late 2025, AI-focused security firms were **>50%** of global cyber VC deals.
- Identity Security is now the keystone for **agentic AI** access control.
- Buyers are decisively choosing to buy, not build, AI-native security capability.

## IPO Window Reopens, Selectively

The public listing window reopened decisively for security in late 2025.

- **Netskope** debuted September 2025, opening **+18%** on day one.
- **Rubrik** listed April 2024, opening **+16%** on day one.
- **Snyk, Armis, Cohesity** are queued for 2026 or early 2027 listings.
- The window rewards scale and a credible AI security narrative.

## Private Capital Pressure

Record private capital is concentrating on platform-scale assets.

- About **\$3.7T** of global PE dry powder is seeking deployment.
- **Thoma Bravo** holds about **\$183B AUM**, including a **\$24.3B** flagship technology fund.
- Cybersecurity VC funding hit **\$13.97B** across 392 rounds in 2025, up **47%** YoY.
- **ServiceNow's \$7.75B Armis** transaction shows tech platforms reaching deep into security.

## 1. Rule of 40 Is Now Rule of 50

For top-decile network security platforms, investors increasingly underwrite a Rule of 50 (revenue growth plus FCF margin). The bar has moved up with the cohort.

- Zscaler's **78** Rule of 40 score is the live benchmark to beat.
- Each ten-point gain in score is now worth roughly an additional turn of revenue.

## 2. Net Revenue Retention

NRR above 120% is now the gating metric for premium private rounds and strategic exits. It evidences a working expansion engine, not a one-time sale.

- Target **NRR >120%** with a clear cross-sell map.
- Show evidence of pricing power and seat-plus-module monetisation.

## 3. Public Discipline Has Arrived

Private marks now move with public comparables. The Q1 2026 software repricing has imported public discipline into late-stage private rounds.

- **Wiz** filed at a reported **\$15B** valuation, up from Google's 2024 \$12B bid.
- Price private rounds against public peer screens, not 2021 vintage marks.

## 4. Platform vs. Point Tool

Buyers are paying through-cycle premiums for breadth that absorbs bolt-ons; standalone point tools face a discount they cannot grow out of.

- Platform leaders cluster at **12x to 18x+** EV/Revenue.
- Standalone point tools compress toward **4x to 6x** even at premium growth.

## 5. AI-Native Architecture

AI capability is no longer a differentiator; it is table stakes. Investors now distinguish bolt-on AI from genuinely AI-native architecture.

- Quantify AI-driven cost-to-serve reductions, not pilot programs.
- Agentic AI access (identity for machines) is the highest-premium adjacency.

## 6. Buyer-Readiness Discipline

With record dry powder chasing a thin supply of platform-ready assets, the prepared seller captures the competitive tension.

- Clean financials, documented APIs and a defensible data room.
- Map specific capability gaps for each of your top five strategic acquirers.

# Founder FAQs: Network Security Valuations, Timing & Strategy

WINDSOR DRAKE

The questions network security founders ask most, answered against the Q2 2026 market.

## Q1 Which valuation metric applies to my business?

Use **EV/Revenue** for high-growth SaaS-delivered security (SASE, SSE, ZTNA, NDR with cloud delivery), **EV/EBITDA** for mature on-prem firewall and appliance vendors, and a blended multiple where the business is mid-transition. Always reference the correct subsegment cohort, never a broad cybersecurity average.

## Q3 Why is the Rule of 40 so critical?

It is the single best predictor of a premium multiple. Best-in-class names (Zscaler) post scores near **78**, while sub-40 performers face deep multiple discounts. The cohort has migrated to a **Rule of 50** benchmark for top-decile valuations, and each 10-point gain is worth roughly an additional turn of revenue.

## Q5 When is the optimal time to run a process?

After demonstrating **4 to 6 quarters** of predictable performance, while still holding 12 to 18 months of runway. The Q1 2026 wave of strategic consolidation (Palo Alto/CyberArk, ServiceNow/Armis) confirms buyer appetite at scale; negotiating from strength is what captures the scarcity premium.

## Q7 Is the IPO window a viable alternative to M&A?

It has reopened but is selective. **Netskope** and **Rubrik** debuted strongly; **Snyk**, **Armis** and **Cohesity** are queued. The window favours scaled, profitable assets above roughly \$300M ARR. For most assets, a strategic sale still delivers a superior risk-adjusted outcome via control premiums.

## Q2 What are the key subsegment ranges right now?

**SASE/SSE** platform leaders trade **12x to 28x** EV/Revenue; **NGFW** incumbents anchor **10x to 18x** revenue or **14x EV/EBITDA**; **ZTNA** specialists trade **8x to 14x**; **NDR** pure-plays compress toward **5x to 9x** under XDR pressure. The gap reflects platform breadth and revenue quality.

## Q4 How do public and private valuations compare?

The private premium has compressed. Q1 2026 public-software repricing pulled late-stage private rounds toward public benchmarks. AI-native security still raises at clear premiums, but older private firewall and NDR vendors are seeing flat marks. Wiz refiled at **\$15B** versus Google's 2024 **\$12B** indication.

## Q6 Who are the most active buyers today?

**Platform consolidators** (Palo Alto, CrowdStrike, Cisco, Fortinet) acquiring capability for platformisation; **tech platforms** (Google, Microsoft, ServiceNow) buying security-native infrastructure; and **PE platforms** with \$3.7T of dry powder, led by Thoma Bravo on its \$24.3B flagship fund.

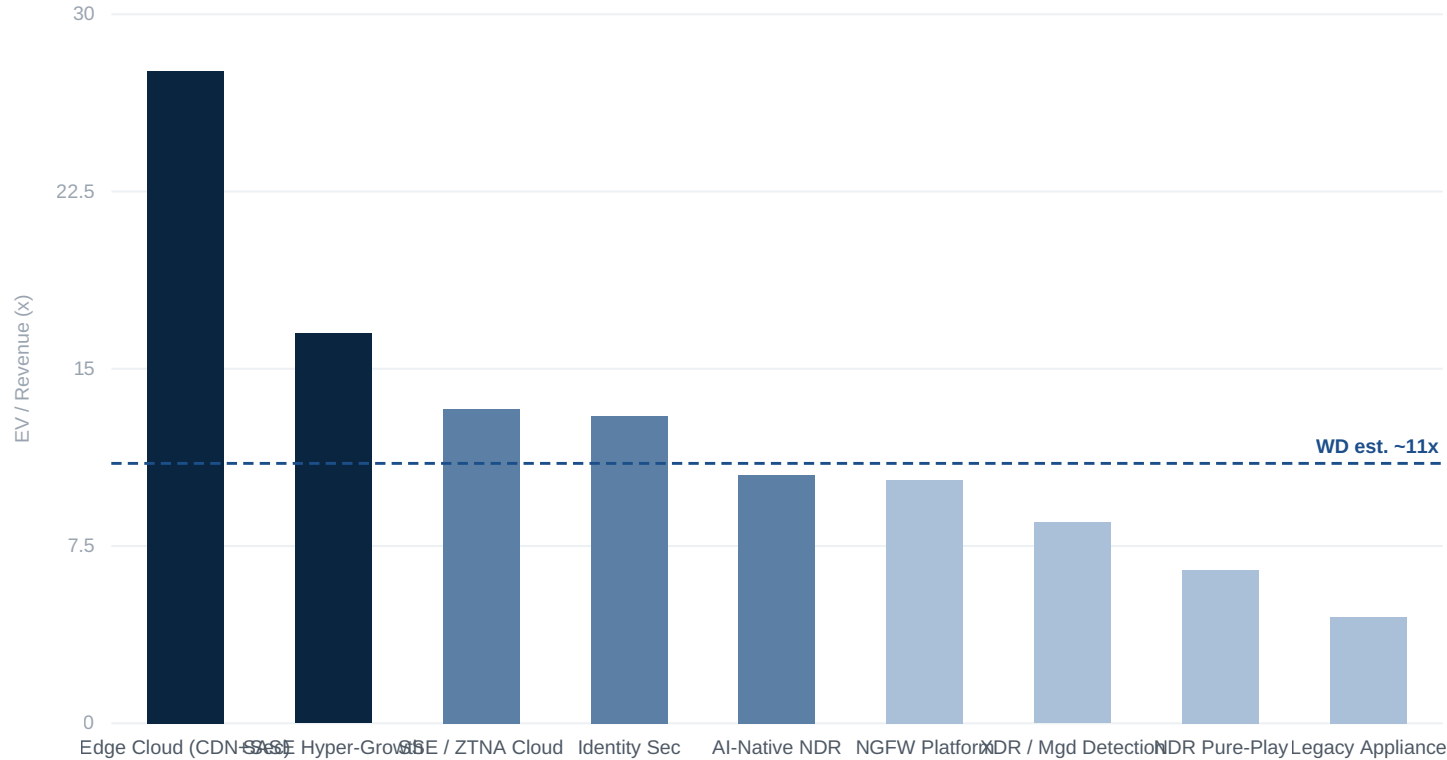
## Q8 How do we maximise our multiple, and expect earn-outs?

Clear the **Rule of 50**, sustain **NRR >120%**, evidence AI-native architecture, and de-risk compliance ahead of diligence. Expect **earn-outs** to bridge valuation gaps; they are now standard structure for AI-claim or early-traction assets, paid over 12 to 24 months on platform-integration milestones.

# Q2 2026 Network Security Valuation Landscape

Premium multiples cluster in cloud-native SASE and edge platforms; on-prem appliances anchor on EBITDA.

Median EV / Revenue Multiple by Network Security Subsegment (x)



**Deep bifurcation:** the gap between cloud-native edge platforms (>27x) and legacy appliance vendors (<5x) is the defining feature of the market, driven by revenue durability, gross margin and AI-native architecture.

## PLATFORM LEADERS

**~18.5x**

Hyper-growth platform leaders (Cloudflare, CrowdStrike, PANW, Zscaler) median EV/Revenue, 2025 (Channel Futures / Clipperton).

## MATURE NGFW

**~14x EBITDA**

Mature firewall incumbents (Fortinet, Check Point) anchor on EBITDA multiples.

## RULE OF 40 CLEARS

**78 (Zscaler)**

Zscaler's most recent quarterly Rule of 40 score, the live cohort benchmark.

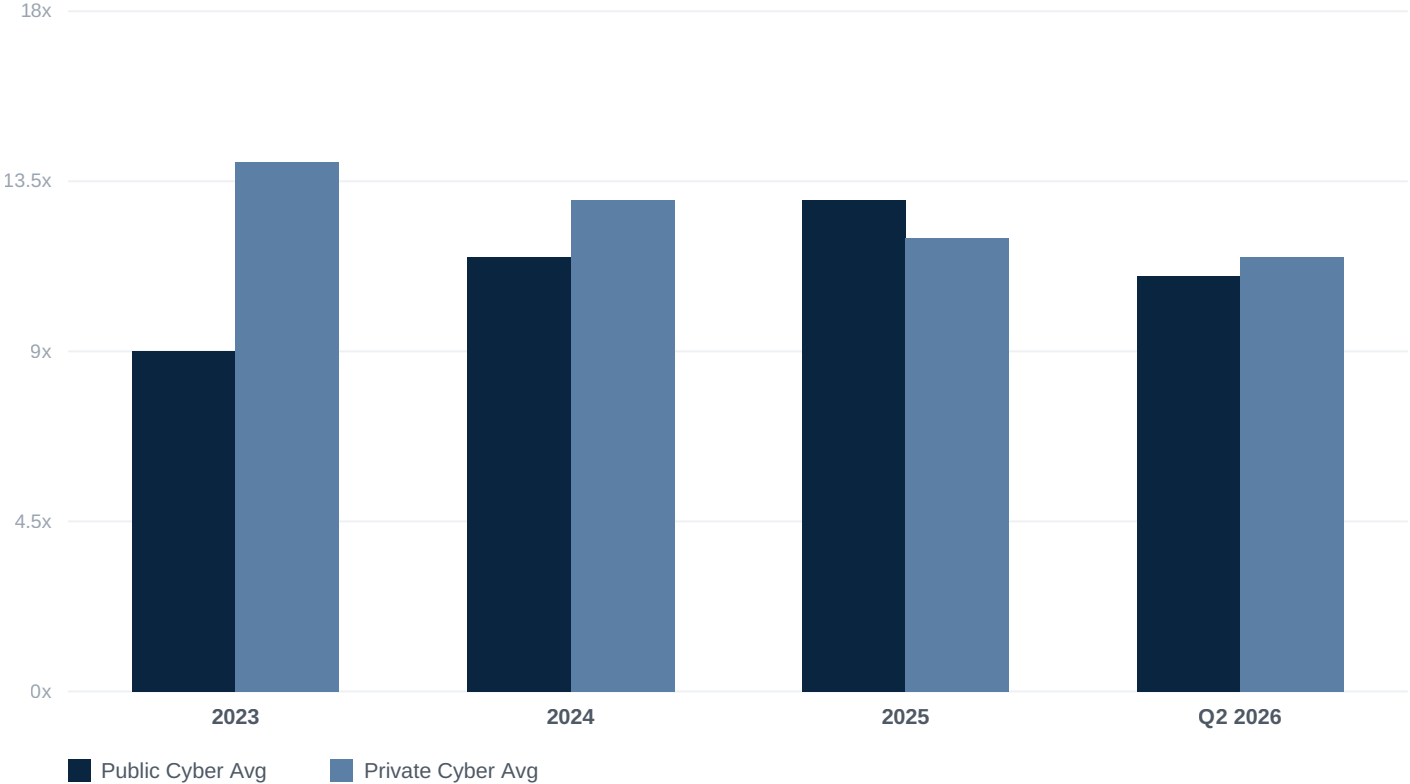
## Key Driver

Buyers are paying for AI-native architecture and platform breadth, not feature count. The Q1 2026 mega-deals confirm acquirers will write nine and ten-figure cheques for platformisation.

# Public vs Private Market Convergence

The public software re-rating has dragged private security marks closer to public benchmarks.

Average EV / Revenue Multiple, Public vs Private (x)



### PUBLIC / PRIVATE SPREAD

**~0.5x**

Down from about 5x in 2023; AI-native private security remains an exception.

### PUBLIC BENCHMARK ANCHOR

**~11x**

Public median EV/Revenue for the network security cohort, Q2 2026 (PitchBook).

### AI-NATIVE PREMIUM

**+30 to 50%**

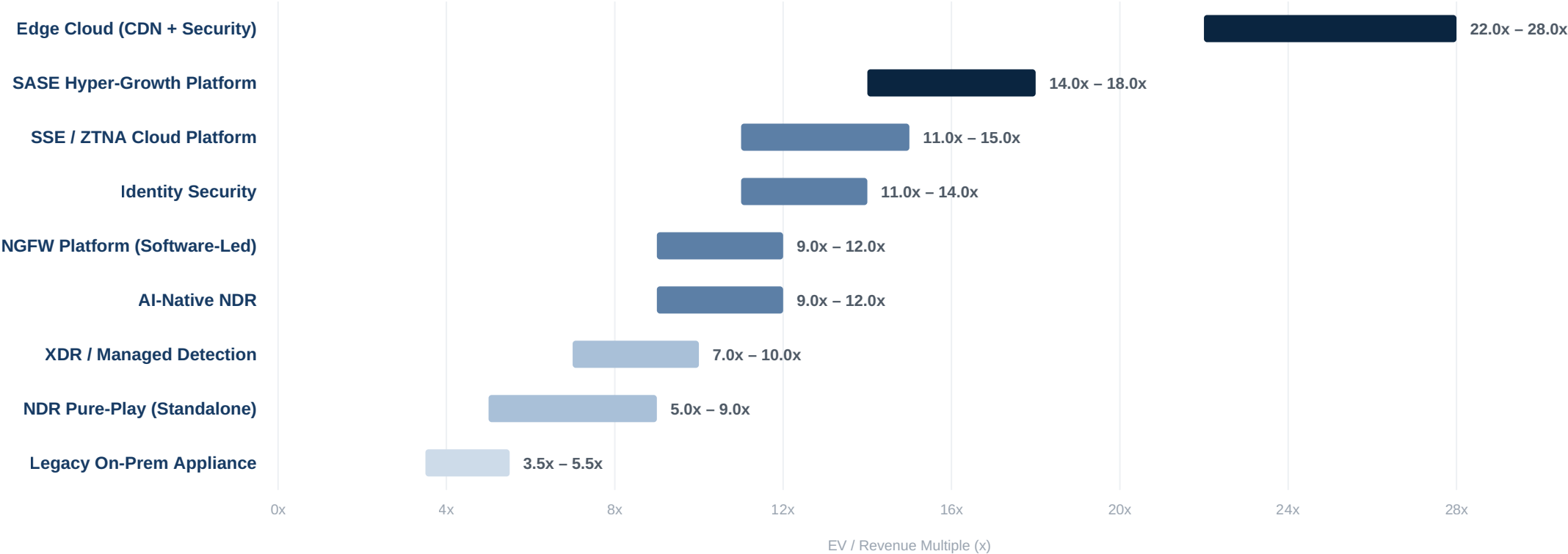
Estimated premium AI-native security platforms still command in late-stage private rounds.

**Convergence completed:** the historical 3 to 5x private premium has compressed below 1x. Q1 2026 public software broadly repriced lower, pulling late-stage private rounds toward public benchmarks. AI-native security still commands premiums above the cohort.

Sources: PitchBook; CB Insights; S&P Global Market Intelligence; Windsor Drake analysis. See appendix.

# Exit Valuation Multiples by Network Security Subsegment

A clear bifurcation persists between cloud-native edge platforms (16-28x) and on-prem appliance models (4-6x).



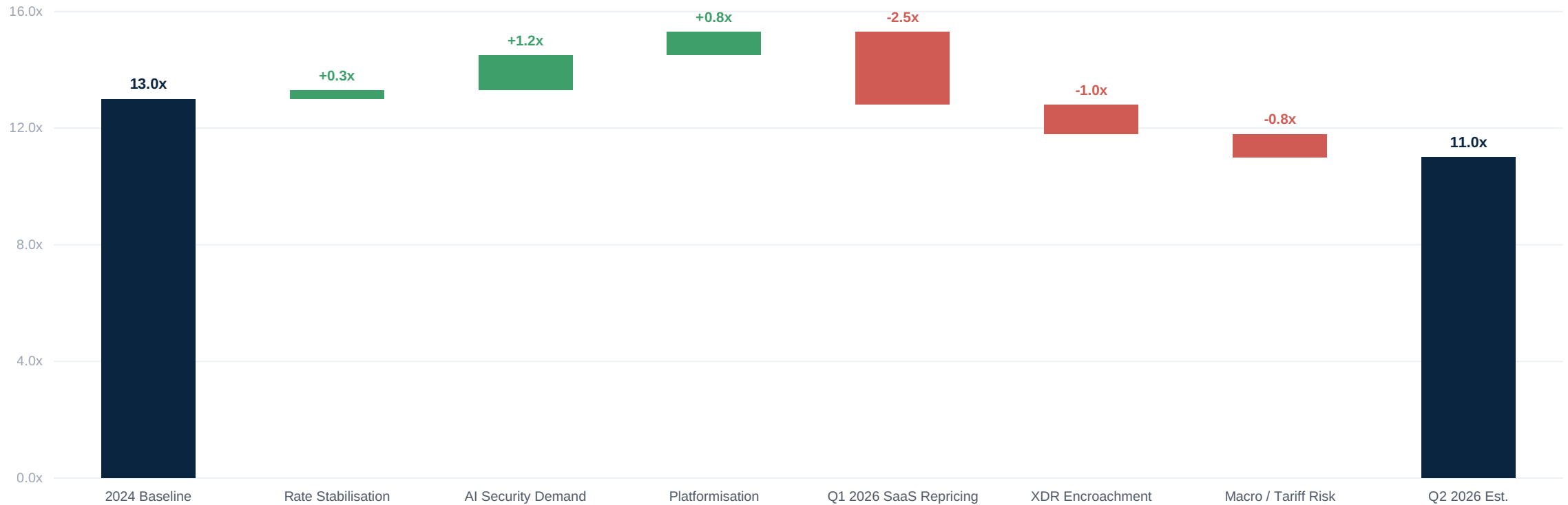
### KEY OBSERVATION

The market is paying for cloud-delivered, software-economics security. The 4x-plus revenue-multiple gap between SASE platforms and legacy appliances reflects the structural shift from on-prem capex to cloud-delivered opex models.

Sources: PitchBook; CB Insights; S&P Global Market Intelligence; Windsor Drake analysis. See appendix.

# Valuation Multiple Drivers: Expansion vs. Compression

Net trajectory holds near 11x as platform premiums and AI-native demand offset Q1 2026 software repricing.



## NET COMPRESSION OF 2.0X

AI security and platformisation continue to expand the top of the table, but Q1 2026 software-wide repricing and XDR encroachment on NDR pull the median lower. The bridge reflects Windsor Drake analysis of the cited institutional data.

# Capital Markets: IPO Window & Listing Benchmarks

WINDSOR DRAKE

The 2025-26 listing class reopened the security window: scale, profitability and an AI narrative now gate access.

## Netskope (Nasdaq)

Listed September 2025; opened **+18%** at a reported valuation near **\$6.5B**.

- Single-vendor SASE leader; rare pure-play cybersecurity IPO.
- Validated the public window for cloud-delivered network security.
- Backed by Lightspeed; confirmed buyer appetite for SSE+SD-WAN integration.

## Rubrik (NYSE)

Listed April 2024 at about **\$32**, day-one **+16%**, valuation roughly **\$5.6B** at IPO.

- Cyber-resilience and data-security platform; strong post-listing trajectory.
- Set the template for security IPOs into 2025-26.
- Identity-plus-resilience thesis has paid off through 2026.

## 2026 IPO Queue

A line of well-capitalised security assets is queued for 2026 or early 2027.

- **Snyk** at ~\$300M ARR targeting **2026** (per CEO commentary).
- **Armis** raised a **\$435M** pre-IPO round, targeting late 2026 / early 2027.
- **Cohesity** is preparing a 2026 listing post-Veritas combination.

## Wiz (Acquired Pre-IPO)

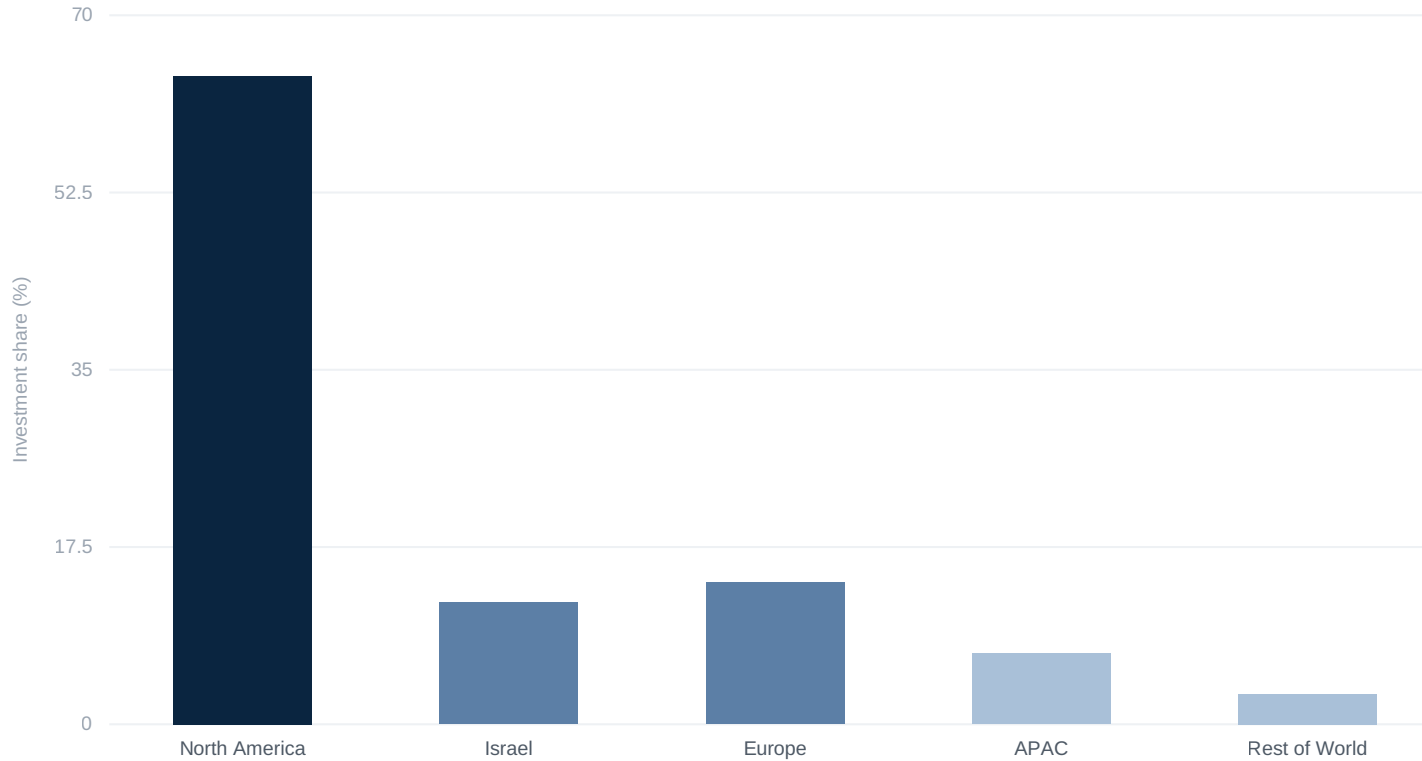
Wiz exited the IPO queue via Google's **\$32B** acquisition.

- Largest ever standalone cybersecurity acquisition (announced Mar 2025).
- Confirmed acquirers will outbid public markets for AI-native security.
- Sets the bar for future cybersecurity strategic exits.

# Geographic Variation in Network Security Activity

North America commands the innovation premium; Israel remains the disproportionate R&D engine.

Share of Global Cybersecurity Investment by Region (%)



## NORTH AMERICA

### Premium

About 64% of 2025 global cybersecurity venture capital flowed to North American founders.

## ISRAEL

### R&D Engine

Punches above its weight at about 12% of global cyber funding; produces a disproportionate share of platform-grade assets.

## EUROPE

### Value

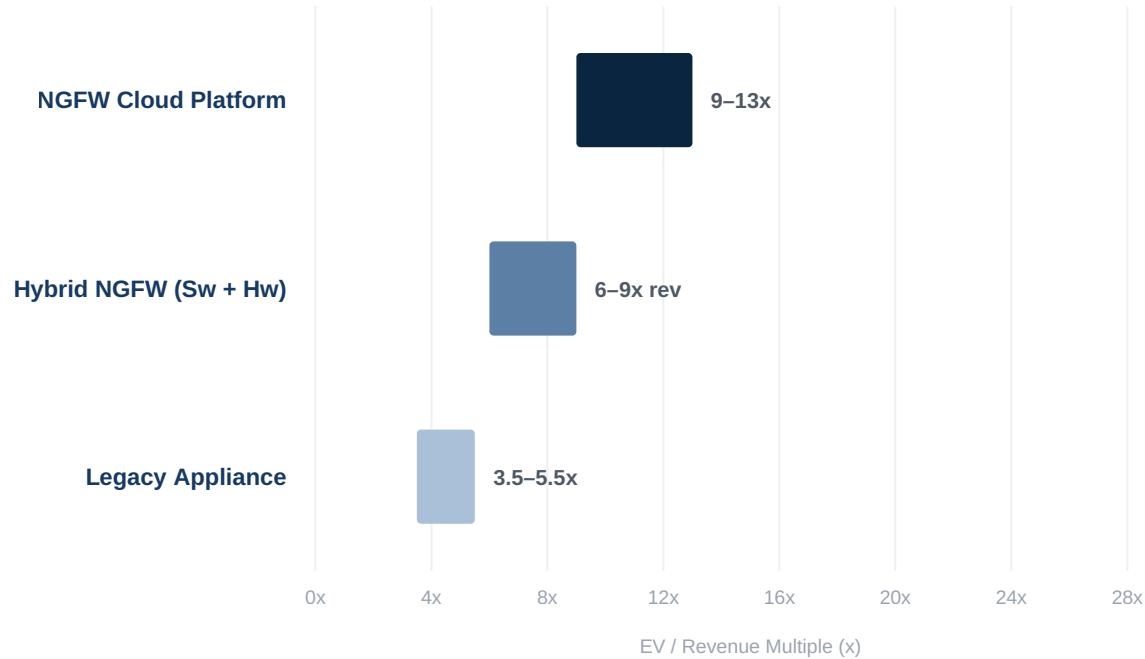
About 14% share; fragmented market offers acquisition arbitrage for US strategics.

**Valuation gap:** North America commands a clear premium on the strength of deep public markets and the strategic-acquirer base (Palo Alto, Cisco, CrowdStrike). Israel remains the global R&D hub, with about 12% of investment routed to Israeli founders. Europe trades at a fragmentation discount.

# Next-Generation Firewall (NGFW): Platform vs Appliance

Software-led NGFW platforms re-rate on subscription economics; pure appliance vendors anchor on EBITDA.

EV / Revenue Multiple Range (x)



## Valuation Drivers

### Software Subscription Mix

The shift to subscription delivery is the single largest re-rating lever; vendors with **>70%** subscription revenue command software multiples while box-led shops stay valued on box economics.

### Market Concentration

Fortinet, Palo Alto, Cisco and Check Point hold roughly **70%** of global NGFW shipments. Scale and channel reach are now structural moats against new entrants.

### Buyer Priorities

Acquirers are paying up for NGFW assets that can unify edge, branch and identity, the prerequisite for a single-vendor SASE play.

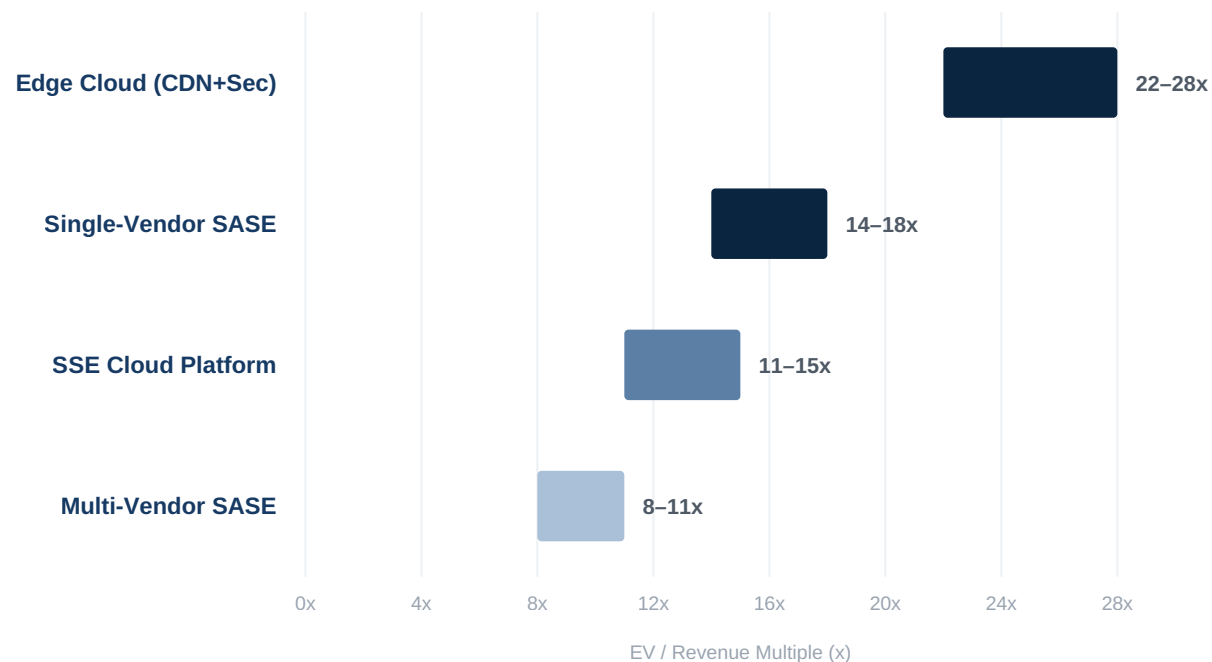
## KEY OBSERVATION

The NGFW market is bifurcating between platform vendors that have re-anchored on software economics and box-led vendors that remain priced like industrial assets.

# SASE & SSE: The Premium Subsegment

Single-vendor SASE adoption is rising rapidly; pure-play SSE leaders command the highest multiples in the cohort.

EV / Revenue Multiple Range (x)



## Valuation Drivers

### Single-Vendor Adoption

Gartner expects **70%** of SD-WAN purchases to ride a single-vendor SASE platform by 2028, up from **25%** in 2025. The shift compounds the leaders' multiples.

### Workload Stickiness

SASE deployments are multi-year, capital-light from the customer's side, and difficult to rip out. Revenue durability supports software-leader multiples.

### Strategic Acquirers

Microsoft, Google and Cisco are the most acquisitive at the SASE layer; Palo Alto has built its platform organically around Prisma.

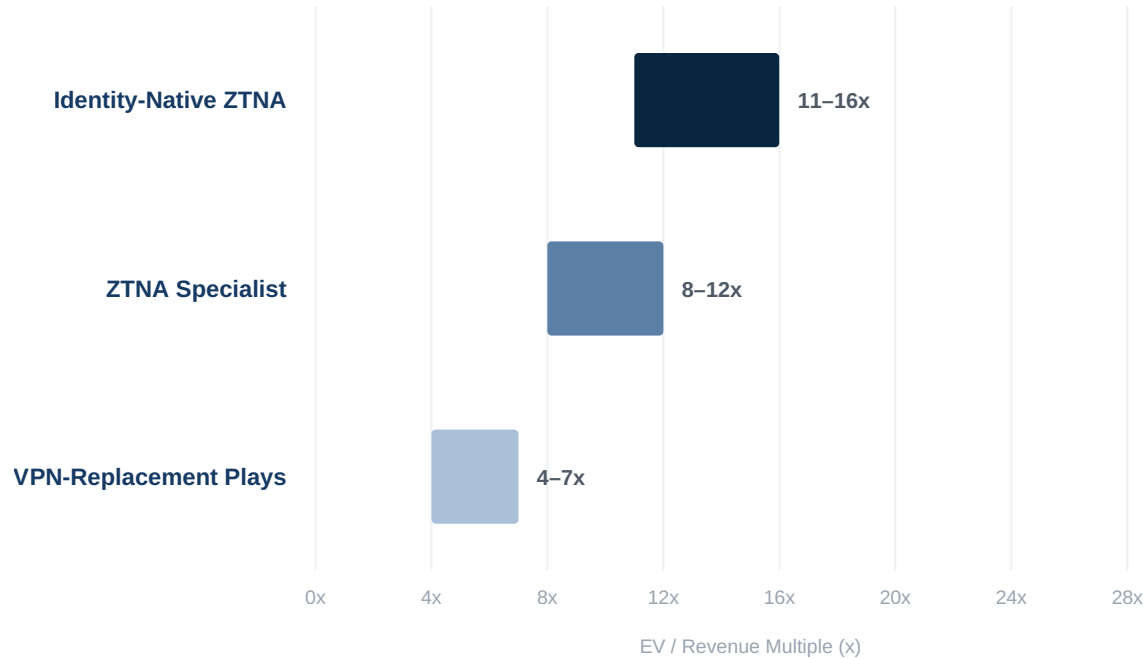
## KEY OBSERVATION

SASE is the clearest 'platform-of-the-future' thesis in network security: the leaders compound multiples on stickiness, breadth and the secular cloud-delivery wave.

# Zero-Trust Network Access (ZTNA)

ZTNA mandates and identity-aware access have re-priced the segment toward platform multiples.

EV / Revenue Multiple Range (x)



## Valuation Drivers

### Federal Mandates

81% of enterprises target zero-trust completion by 2026, driven by Executive Order 14028 and CISA maturity model adoption.

### Identity as the Plane

Identity-native ZTNA is where the platform leaders meet identity vendors; Palo Alto's \$25B CyberArk acquisition is the cleanest evidence.

### Agentic AI Access

Machine and agent identities are the next access boundary. Vendors that can broker identity for autonomous systems are commanding clear premiums.

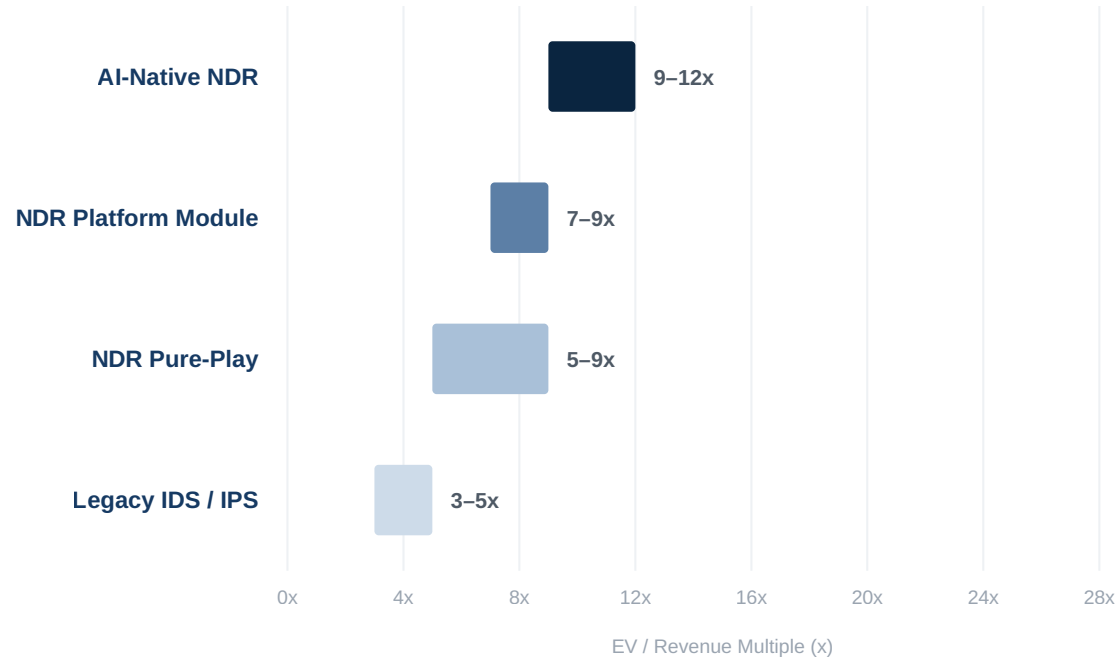
#### KEY OBSERVATION

ZTNA is no longer a distinct segment; it is being absorbed into identity-plus-edge platforms. Specialist ZTNA vendors face strategic acquisition pressure within the next 12 to 24 months.

# Network Detection & Response (NDR)

Pure-play NDR multiples have compressed under XDR encroachment; AI-native vendors retain a clear premium.

EV / Revenue Multiple Range (x)



## Valuation Drivers

### XDR Encroachment

Microsoft, CrowdStrike, Palo Alto and Fortinet now capture the bulk of new detection spend. Pure-play NDR vendors compress unless they monetise a distinct OT, ICS or AI-native angle.

### OT / ICS Specialism

Vendors with credible OT, ICS or industrial coverage (Armris, Claroty, Nozomi) trade above the cohort; ServiceNow's **\$7.75B Armris** transaction confirmed the premium.

### AI-Native Analytics

NDR's defensible niche is high-signal, low-false-positive AI detection. Vendors without AI-native architecture are the most at-risk in the cohort.

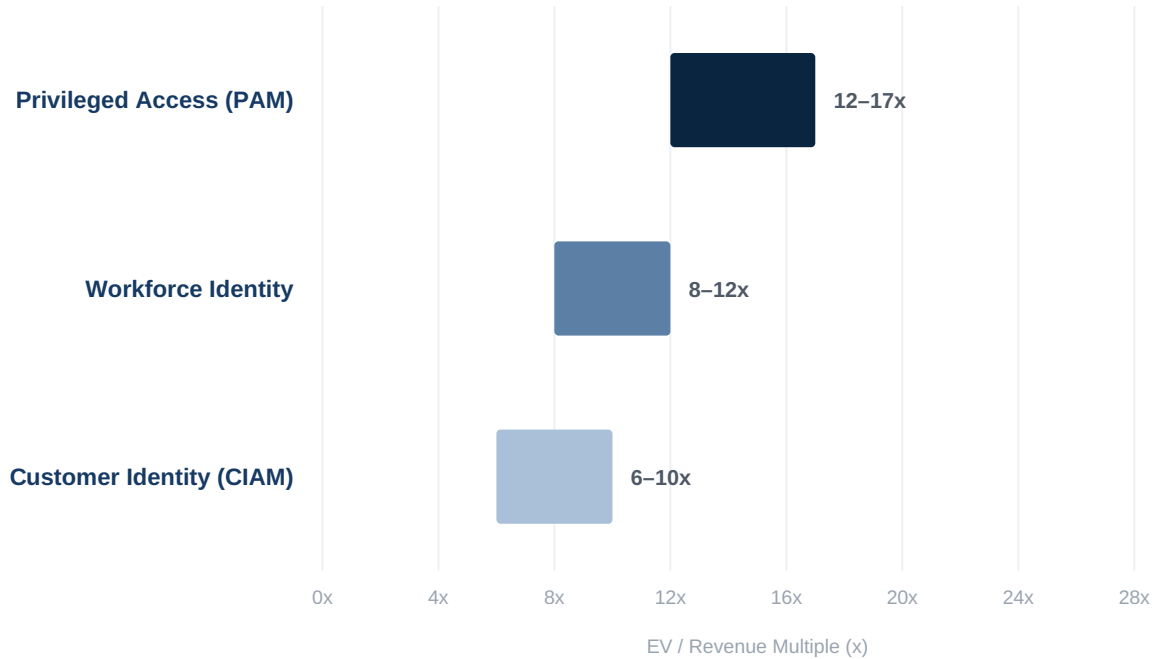
#### KEY OBSERVATION

NDR is consolidating: the pure-play model is under pressure, while the platform-integrated and OT-specialist tiers continue to command healthy multiples.

# Identity Security & Privileged Access

Identity is the new perimeter; the segment has become the highest-strategic-value adjacency to network security.

EV / Revenue Multiple Range (x)



## Valuation Drivers

### Platform Pull

Palo Alto's **\$25B** acquisition of CyberArk on 11 Feb 2026 marked the moment network security and identity security collapsed into a single platform thesis.

### Agentic AI Access

AI agents now need privileged access governance. PAM vendors with credible agent identity stories command the top of the band.

### Strategic Acquirers

Network security platforms (Palo Alto, Cisco, Microsoft) and security operations platforms (CrowdStrike, ServiceNow) are the most active buyers.

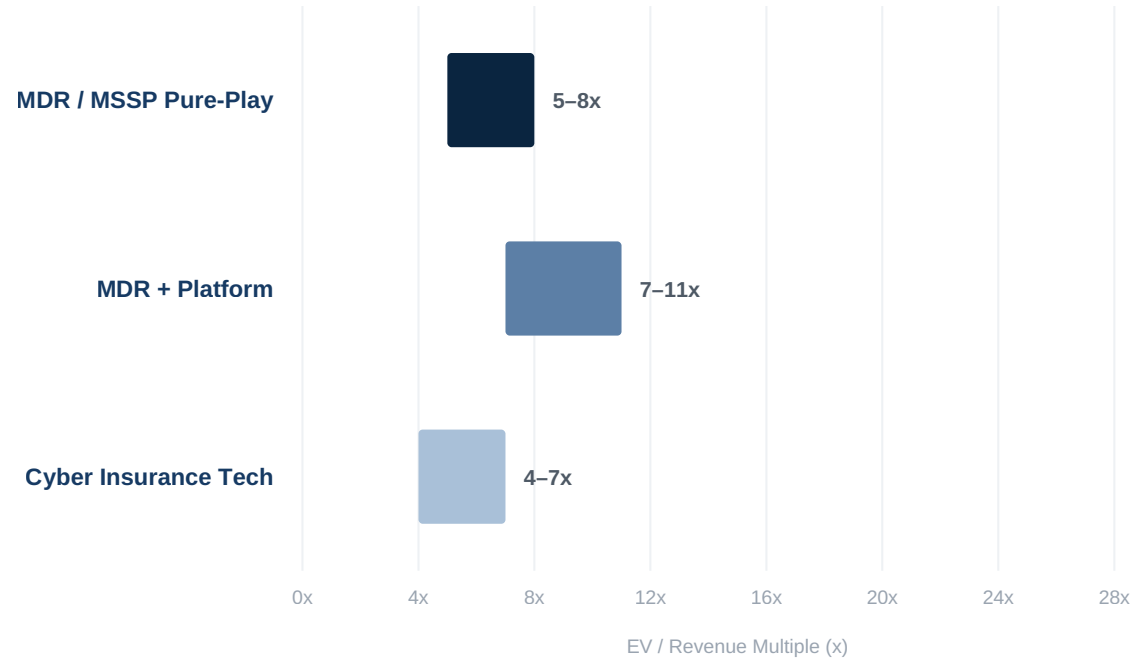
## KEY OBSERVATION

Identity is now the single highest-premium adjacency to network security. Standalone identity vendors should expect a take-out approach inside the 18-month horizon.

# Managed Detection & Response (MDR) and Vendor-Adjacent

MDR and managed services trade at a discount to pure software but offer durable, recurring revenue.

EV / Revenue Multiple Range (x)



## Valuation Drivers

### Services Drag

Pure managed services trade closer to **2x to 4x** EBITDA on revenue logic; vendors with embedded software in the offering re-rate higher.

### Platform Pull-Through

Tightly integrated MDR offerings from platform vendors (CrowdStrike Falcon Complete) capture the segment's premium tier.

### PE Roll-Up Path

Fragmented MSSPs are a classic PE roll-up; expect continued consolidation across the mid-market managed security services tier.

## KEY OBSERVATION

MDR is the natural home for PE roll-up activity in network security. The valuation gap to pure-software platforms is unlikely to close, but the segment offers durable cash-flow stories at sensible entry multiples.

# Comparable Transaction Analysis Framework

WINDSOR DRAKE

A rigorous quality-of-revenue filter rather than broad cyber sub-codes.

## 1. Select Peer Set

Identify genuinely comparable assets by fundamental business characteristics: delivery model (cloud-native vs appliance), subscription mix and growth profile, never by broad cybersecurity labels alone.

## 2. Normalise Metrics

Adjust KPIs to a pro-forma basis: normalise growth for M&A, standardise free cash flow margin, and reconcile net versus gross retention for a true comparison.

## 3. Adjust for Structure

Account for deal-specific terms (earn-outs, stock-versus-cash mix and integration synergies) that pull headline valuation away from underlying economic value.

50

TRACKED TRANSACTIONS

2019–26

EXIT INDEX COVERAGE

## Proprietary Transaction Index

Calibration draws on Windsor Drake's proprietary index of **50 verified and reported transactions (2019 to 2026)**, a living comparable-set database refreshed each quarter and supplemented with cybersecurity-specific deal screens.

## Quality-of-Revenue Filter

Peer selection prioritises subscription versus services revenue, gross-margin profile (above **75%** versus below **40%**), and customer-concentration risk.

## Rule of 40 (Rule of 50) Adjustment

A specific premium layer is applied for top-decile efficiency performers (Rule of 50 and above); offsetting discounts are applied for heavy services mix and high earn-out components.

## Control Premium Calibration

Indications include a control-premium layer, typically **25 to 35%** in cybersecurity, where capability and platform synergies can be concretely underwritten.

# Strategic Acquirer Mapping by Subsegment

WINDSOR DRAKE

Platform consolidators chase breadth; tech platforms buy cloud-security; PE platforms compound buy-and-build.

Subsegment	Platform Consolidators	Hyperscaler / Tech	Private Equity
<b>NGFW</b>	<b>HIGH</b> Core consolidation territory: PANW, Fortinet, Cisco, Check Point.	<b>MODERATE</b> Cloud firewall capability adjacent to hyperscaler workloads.	<b>MODERATE</b> Take-privates of mature appliance vendors on EBITDA.
<b>SASE / SSE</b>	<b>HIGH</b> Single-vendor SASE is the platform thesis; high acquirer pull.	<b>HIGH</b> Google, Microsoft and Cisco actively pursuing SASE capability.	<b>MODERATE</b> Roll-ups of regional SASE specialists for scale.
<b>ZTNA / Identity</b>	<b>HIGH</b> Palo Alto / CyberArk template; identity is the new perimeter.	<b>HIGH</b> Hyperscaler identity stacks; agentic AI access urgency.	<b>MODERATE</b> Selective PAM and IGA roll-ups; identity governance focus.
<b>NDR</b>	<b>MODERATE</b> XDR encroachment limits standalone NDR appetite.	<b>LOW</b> Hyperscalers prefer to build native detection.	<b>MODERATE</b> OT/ICS specialists are roll-up candidates (Armis path).
<b>MDR / MSSP</b>	<b>MODERATE</b> Platform vendors integrating managed offerings (Falcon Complete).	<b>LOW</b> Hyperscalers partner rather than acquire managed services.	<b>HIGH</b> Prime PE roll-up territory; fragmented MSSP market.
<b>Cyber Insurance / Resilience</b>	<b>MODERATE</b> Bolt-ons to platform offerings (e.g., breach response).	<b>LOW</b> Outside core hyperscaler thesis.	<b>HIGH</b> Specialty PE roll-ups of resilience and recovery vendors.

# Platform Consolidators as Buyers

The largest network security vendors are buying capability to defend and extend platform position.

---

## Strategic Motives: Buy vs. Build

The internal build cycle for AI-native security and identity is too slow to counter the pace of agentic AI adoption. That gap is compelling platform consolidators to acquire mature stacks outright, treating M&A as defensive platformisation rather than expansion.

## Acquisition Patterns

The clear preference is for platform-extending technology under **\$10B**, with selective megadeals (Palo Alto / CyberArk at **\$25B**) where the strategic stakes justify it. Stock-and-cash combinations have returned as the standard structure.

**\$25B**

PALO ALTO / CYBERARK

**Buy**

OVER BUILD, ON AI

## Platform Integration

Acquirers preserve the target's architecture and key talent while overlaying platform identity, billing and compliance. Federated integration has become the default model.

---

### Priority: Identity Security

Identity is the top declared acquisition target through 2026. Network security platforms are buying privileged access, IGA and customer identity capability aggressively.

---

### Priority: AI-Native Detection

Detection vendors with credible AI-native architecture are the second-most-targeted segment, as platforms rebuild detection on agentic foundations.

---

### Priority: Cloud-Native Edge

SASE and edge-cloud capability remains an active acquisition target for vendors that have not built a credible single-vendor SASE offering organically.

# Private Equity Acquisition Patterns

WINDSOR DRAKE

Record dry powder is concentrating on platform-grade cybersecurity assets and disciplined roll-ups.

## Deployment Pressure

About **\$3.7T** of global PE dry powder is seeking deployment. Thoma Bravo alone holds about **\$183B AUM** including a **\$24.3B** flagship technology fund, and remains the most active cybersecurity sponsor by deal count and value.

## Public-to-Private Thesis

Mature, cash-generative cybersecurity public companies trading below intrinsic value are prime take-private targets. Recent precedent includes Thoma Bravo's **\$5.3B** Darktrace transaction (April 2024).

~\$3.7T

GLOBAL DRY POWDER

\$183B

THOMA BRAVO AUM

## Ideal Target Profile

Sponsors prioritise **Rule of 40** adherence, recurring revenue above **80%**, and low churn. These are the metrics that support leverage capacity and durable cash flow.

## Value-Creation Playbook

Pricing optimisation, mix-shift toward high-margin software revenue, and buy-and-build consolidation of fragmented MSSP and identity verticals.

## Aging-Portfolio Catalyst

A backlog of 2018 to 2021 cybersecurity sponsor deals is now approaching forced exit windows, signalling a parallel wave of secondary buyouts.

## Deal Structure Trends

A resurgence of all-cash transactions for deal certainty, with earn-outs reserved for unproven AI capability claims.

# Competitive Moats Driving Premium Valuations

WINDSOR DRAKE

Network security multiples above 14x are reserved for assets with structural defensibility.

## Data & Telemetry Scale

ASSET VALUE: HIGH

### Proprietary signal training detection models

- Creates a virtuous cycle of detection improvement that rivals cannot easily replicate.
- Powers unique threat intelligence and behavioural baselining capability.
- Compounds in value as the install base and event history grow.
- **Action:** deepen first-party telemetry capture across every customer environment.

## AI-Native Architecture

SCALE VALUE: HIGHEST

### Detection and response decoupled from analyst headcount

- LLM-driven triage and automated remediation cut the marginal cost to defend.
- Demonstrates non-linear margin expansion as the customer base scales.
- Directly lifts the Rule of 40 score that gates premium multiples.
- **Action:** integrate AI into core detection and response loops, not as a UI veneer.

## Identity & Policy Plane

BARRIER VALUE: MED-HIGH

### The new control point for agentic AI

- Identity-aware policy is the single highest-strategic-value adjacency.
- Function as compliance-by-design across a heterogeneous platform stack.
- Are increasingly central to platform consolidation theses.
- **Action:** build or acquire identity-policy graph capability early.

## Platform Network Effects

GROWTH VALUE: HIGH

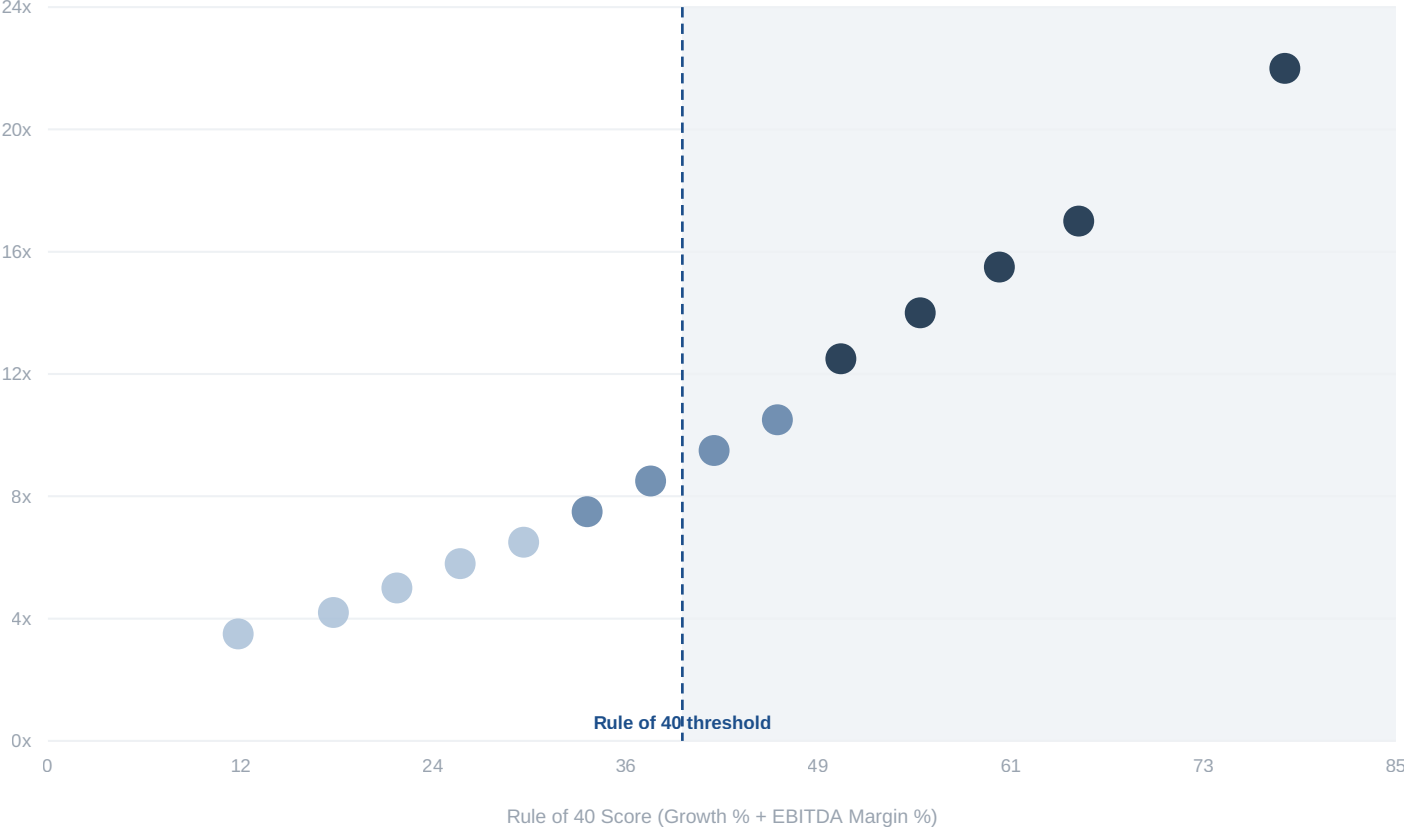
### Cross-product attach drives retention

- Each incremental product attach raises switching costs and NRR.
- Drives structurally higher gross retention and module ARPU expansion.
- Raises bargaining power with channel partners and resellers.
- **Action:** prioritise the second and third product attaches in the install base.

# Rule of 40 Performance Distribution

The network security cohort has migrated to a Rule of 50 benchmark for top-decile premium multiples.

EV / Revenue Multiple vs Rule of 40 Score



TOP DECILE ( SCORE >50 )

**13x+**

Scaled platform winners; the primary targets for premium strategic M&A.

RULE OF 40 MET ( 40 TO 50 )

**9–13x**

Healthy balance; credible IPO-ready candidates with platform optionality.

BELOW THRESHOLD ( <40 )

**3–6x**

Transition and value-trap zones; vulnerable to consolidation or take-private.

Zscaler's reported Rule of 40 score of 78 anchors the top of the cohort. Top-decile network security platforms now demand a Rule of 50 result for premium valuations; sub-40 performers face deep discounts.

Sources: McKinsey & Company; Bain & Company; Windsor Drake analysis. See appendix.

# Cross-Border M&A Considerations

Jurisdictional divergence is the primary deal risk, and the primary arbitrage, in 2026.

---

## Regulatory Regimes

Heightened scrutiny of national security technology (CFIUS, FDI review), divergence between EU AI Act compliance and US frameworks, and tightening Israeli export controls materially complicate cross-border cyber M&A and lengthen approval timelines.

## Currency & WACC Impact

US acquirers are leveraging a strong dollar and premium domestic multiples to buy discounted European and Israeli assets; managing divergent regional rate environments is central to any debt-financed deal.

**12–18mo**

CROSS-BORDER CYCLE

**+30–50%**

LONGER CLEARANCE

## Extended Timelines

Regulatory clearance for cross-border cyber deals now runs **30 to 50%** longer than domestic transactions; ensure runway to withstand delay without losing leverage.

---

## Milestone-Tied Earn-Outs

Regulatory earn-outs unlock tranches of consideration on specific approvals, licence transfers or data-sovereignty milestones, rather than on revenue alone.

---

## Tax & IP Structure

Establish efficient holding structures early; optimise IP transfer pricing and Israeli OCS approvals well before LOI discussions begin.

---

## Dual-Track & Local Partners

Run IPO readiness alongside the M&A process for competitive tension, and retain local management to navigate post-close regulatory nuance, particularly in Israeli targets.

# Exit Valuation Optimisation Strategies

WINDSOR DRAKE

Four levers that systematically de-risk the asset while amplifying its scarcity value.

## 1. Pricing Power & Margins

6 TO 12 MONTHS PRE-EXIT

### Demonstrate defensible unit economics

- Shift from seat-based to **outcome- and consumption-based** pricing models.
- Implement multi-product tiers to capture customer expansion upside.
- Target a **15% plus** ARPU lift across the top customer cohorts.
- Evidence pricing elasticity with clean, auditable cohort data.

## 2. Revenue Quality

PREDICTABILITY

### Engineer resilience into the revenue model

- Increase the subscription revenue mix to **80%+** of total.
- Improve Net Revenue Retention to **>120%** via cross-sell.
- Reduce customer concentration so the top 10 accounts are under 25%.
- Lengthen contract duration to extend revenue visibility.

## 3. Rule of 50 Efficiency

PREMIUM TIER

### Prove scalable profitability

- Reallocate operating expense from low-ROI channels into R&D.
- Deploy AI to decouple analyst and SE headcount from revenue growth.
- Target **above 50%** on growth plus FCF margin where credible.
- Track the score monthly with board-level visibility.

## 4. Strategic Narrative

COMPETITIVE TENSION

### Frame the asset as platform infrastructure

- Position as platform infrastructure, not a point tool.
- Present quantified synergy cases covering revenue and cost.
- Map specific capability gaps for the top five strategic acquirers.
- Run a structured process to manufacture competitive tension.

# Positioning for Strategic Acquisition

WINDSOR DRAKE

Strategic value in network security is driven by capability fit, integration ease and synergy density.

---

## Capability Fit

Demonstrate unique IP, proprietary telemetry or AI-native architecture that fills a specific, declared platform gap, making the buy-versus-build decision self-evident for the acquirer.

## Integration Ease

Acquirers pay clear premiums for plug-and-play assets. Minimise critical third-party dependencies, document APIs thoroughly, and present clean, audited financials with module-level revenue split.

## Synergy Density

Quantify the revenue lift from cross-selling into the acquirer's installed base, and model the cost synergies from shared infrastructure, to support a higher multiple.

## Strategic Buyer Mapping

Run a structured gap analysis of potential acquirers and map your capabilities directly to each buyer's declared strategic deficits.

---

## Proof-of-Integration

Develop technical materials that demonstrate speed-to-value within the acquirer's platform, pre-empting the technical diligence phase.

---

## Synergy Quantification

Explicitly model top-line and bottom-line impact in the management presentation to anchor the valuation conversation on hard numbers.

---

## Comprehensive VDR Readiness

Build a defensive data room addressing regulatory, IP, customer-concentration and security-incident-history risk before the first buyer engagement.

# Timing the Exit: 12-18 Month Roadmap

WINDSOR DRAKE

A full process runs 12 to 18 months end to end. Founders who prepare in the current cycle meet the market while today's alignment of platform consolidation and reopened capital markets still holds.



## Readiness & Hygiene

Q3 2026

- Audit completion to PCAOB standard
- AI governance and model-rights review
- Unit-economics optimisation
- Clean up the cap table and option pool

KEY MILESTONE

**Clean IP and open-source scan**



## Strategic Positioning

Q4 2026

- Launch dual-track process preparation
- Build the strategic buyer-targeting list
- Draft the CIM and management presentation
- Lock key-employee retention packages

KEY MILESTONE

**Retention packages locked**



## Market Engagement

Q1 2027

- Fireside chats with priority strategics
- Solicit initial indications of interest
- Deliver management presentations
- Open the virtual data room

KEY MILESTONE

**Competitive bid tension**



## Execution & Closing

Q2 2027

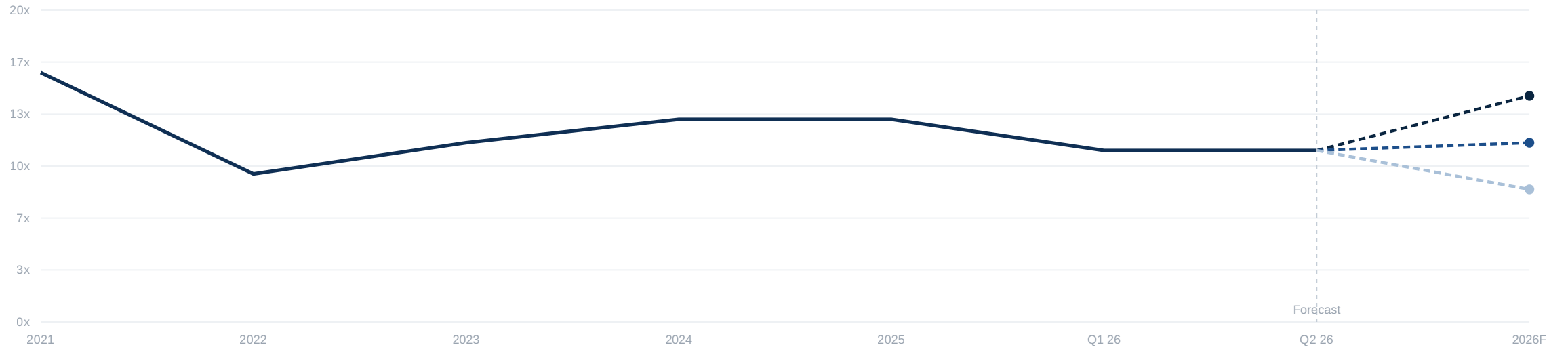
- Definitive agreement negotiation
- Regulatory filings (HSR and CFIUS)
- Confirmatory diligence support
- Closing and integration kickoff

KEY MILESTONE

**No-MAC event verification**

# 2026 Network Security Valuation Forecast Scenarios

With the public cohort median near 11x and Q1 2026 having already repriced, forward trajectories diverge on the durability of AI security demand.



## BULL CASE

**14.5x**

### Key Drivers

- Fed cuts beyond the March 2026 dot path
- Sustained AI security demand re-rates platforms
- Continued IPO window strength into 2027

STRATEGY: ACCELERATE GROWTH

## BASE CASE

**11.5x**

### Key Drivers

- Rates hold; one cut by year-end
- Platform consolidation continues at Q1 pace
- Selective IPOs (Snyk, Armis, Cohesity)

STRATEGY: BALANCE GROWTH & PROFIT

## BEAR CASE

**8.5x**

### Key Drivers

- Inflation reaccelerates; rates stay flat
- Software-wide re-rating extends into H2
- Geopolitical shock freezes cross-border M&A

STRATEGY: CASH PRESERVATION

# Emerging Opportunities & Buyer Trends

WINDSOR DRAKE

Capital is flowing into the connective tissue of an agentic-AI-first security stack.

---

## Agentic AI Access Control

Privileged access for autonomous agents, model-context-protocol gateways and AI-aware policy engines are the highest-growth adjacencies, sitting between identity, network and runtime security.

## OT / ICS Convergence

Industrial network security has become a strategic acquisition target. ServiceNow's **\$7.75B** Armis transaction, and continued PE attention on Claroty and Nozomi, define the segment's premium.

## AI-Native Detection

Detection vendors built on agentic foundations are leapfrogging incumbents. Expect continued capability tuck-ins by platform consolidators across NDR and XDR adjacencies.

## Capability Acquisitions

Platform consolidators are prioritising AI-native and identity capability over customer-base distribution, buying technology to platformise and defend their installed base.

---

## PE Platform Roll-Ups

Sponsors are consolidating fragmented verticals, in MSSPs, IGA and resilience tooling, to build scale and drive multiple expansion.

---

## Cross-Border Acquirers

European and Asian platform vendors are acquiring North American assets to access premium valuations, deeper capital markets and the US strategic-acquirer ecosystem.

---

## Market Intelligence

Top-tier forecasts point to continued buyer concentration on platform-grade assets through 2026. Record dry powder and capability-driven demand are chasing a supply of platform-ready cybersecurity targets that has not kept pace.

# M&A Case Study: Palo Alto Networks & CyberArk

WINDSOR DRAKE

The defining identity-meets-network-security consolidation, and the playbook it sets for founders.

## The Platformisation Playbook

Palo Alto Networks' acquisition of **CyberArk**, valued at approximately **\$25B** and closed on **11 February 2026**, is the defining identity-meets-network-security event of the cycle. It confirms that identity security has become the keystone for the agentic AI access boundary.

## Strategic Rationale

- **Identity as the new perimeter:** privileged access governance extended to human, machine and agentic identities.
- **Platform breadth:** PANW now spans network, cloud, identity and security operations in a single offering.
- **Agentic AI access:** the deal anticipates a step-change in the volume of non-human identities requiring privileged access controls.

## Implications for Founders

### Identity Is Now Strategic

Network security platforms are paying nine and ten-figure premiums for **identity capability**. Identity-adjacent assets should expect aggressive approaches over the next 12 to 24 months, and the window to choose is narrowing.

### Quantify Synergies Pre-LOI

Headline multiples on platform-extending assets rest on **identifiable, underwritable platform synergies**. Vague AI claims no longer move valuation; rigorous synergy math, presented before the LOI, does.

### Platform vs. Point Tool

Assets framed as **platform infrastructure** capable of absorbing module bolt-ons trade at clear premiums to narrow point tools. Integration readiness, clean APIs and modular architecture is itself a valuation lever.

# Valuation Methodology: Choosing the Right Metric

WINDSOR DRAKE

The right metric depends on delivery model, profitability profile and architectural posture.

## EV / Revenue

9–28X

### Cloud-native security platforms

- Applied where profitability is suppressed by growth reinvestment.
- Subscription revenue at **>80%** mix anchors the top of the band.
- The Rule of 40 (or Rule of 50) score dictates where in the range an asset sits.
- Best suited to SASE, SSE, ZTNA and AI-native NDR vendors.

## EV / EBITDA

12–22X

### Mature firewall and appliance

- Essential for mature NGFW incumbents and scaled appliance vendors.
- **Fortinet** and **Check Point** are valued on this lens at about **14x**.
- Margin expansion and product attach drive the score.
- Captures the cash-flow reality of consolidating segments.

## EV / ARR

10–25X

### Subscription-led growth assets

- Suited to early-platform SaaS-led security vendors.
- ARR-based multiples normalise for revenue-recognition timing.
- Premiums attach to NRR above 120% and gross retention near 95%.
- Increasingly the preferred private-market metric for growth rounds.

## Strategic / Premium

BESPOKE

### Identity, AI-native, scarce assets

- Applied where strategic scarcity dominates pure financial metrics.
- Premiums of **30 to 100%** above public peer screens are not unusual.
- Tested by example: Wiz at **\$32B**, CyberArk at **\$25B**.
- Underwritable by concrete platform-synergy math, never narrative alone.

# Appendix: Sources & Methodology (Part 1)

WINDSOR DRAKE

Institution	Report / Source	Date
McKinsey & Company	<i>Global Private Markets Report 2026</i>	Mar 2026
McKinsey & Company	<i>2026 M&amp;A Trends: Navigating a Rebounding Market</i>	Feb 2026
Goldman Sachs	<i>2026 Global M&amp;A Outlook</i>	Jan 2026
Bain & Company	<i>Global Private Equity Report 2026</i>	Feb 2026
S&P Global Market Intelligence	<i>Cybersecurity Sector Sponsor Activity, Q1 2026</i>	Feb 2026
S&P Global Market Intelligence	<i>Private Equity Dry Powder Trends</i>	Dec 2025
KPMG	<i>Pulse of Fintech and Cyber (H2 2025)</i>	2026
PitchBook	<i>Q1 2026 Enterprise SaaS &amp; Cybersecurity Comp Sheet</i>	2026
PitchBook	<i>Cybersecurity IPO Watchlist, 2026</i>	Apr 2026
CB Insights	<i>State of Cybersecurity 2025</i>	2026

# Appendix: Sources & Methodology (Part 2)

WINDSOR DRAKE

Institution	Report / Source	Date
Federal Reserve	FOMC Statement (Apr 2026); Summary of Economic Projections (Mar 2026)	2026
McKinsey & Company	Software value-creation research on the Rule of 40	2025
Bain & Company	Hacking Software's Rule of 40	2025
EY	M&A Outlook 2026 (Deal Barometer)	Jan 2026
Palo Alto Networks	SEC Form 8-K, CyberArk acquisition close (11 Feb 2026)	2026
Gartner	Magic Quadrant for SASE Platforms, 2026	2026
Crunchbase	Cybersecurity Startup Investment Year-End Review	Jan 2026

## VALUATION METHODOLOGY NOTES

### Source Standard

Inputs are restricted to top-tier institutions: bulge-bracket banks, the major consultancies, elite data houses, and primary regulatory and filing sources. Boutique and market-report vendors are excluded.

### Structural Adjustments

Private-market valuations are adjusted for earn-outs, liquidation-preference overhang and lack-of-marketability discounts, typically in the **25 to 35%** range for cybersecurity.

### Peer Set & Normalisation

Peers are filtered on delivery-model alignment (cloud-native versus on-prem), subscription mix (above 80% recurring) and Rule of 40 profile. Financials are adjusted to a pro-forma basis excluding one-time items and stock-based compensation.

### Synthesis & Attribution

Figures labelled as firm analysis or house estimate, including the roughly 11x cohort benchmark, are the firm's own synthesis of the cited institutional data, presented as a house view rather than third-party consensus.