Cyber security: European emerging market leaders
“There are two types of companies: those that have been hacked, and those who don’t know they have been hacked.”

John Chambers, ex-CEO of Cisco
As solutions become increasingly complex, the cyber security industry is responding. Service providers who are able to complement vendor’s ‘off-the-shelf’ products with proprietary and/or bespoke solutions are taking the lead. In particular, specialist security service providers, with managed security service (MSS) capability and cross-border footprints, appear best-positioned to address customers’ fast evolving needs.

The total number of security incidents detected by respondents climbed to **42.8 million in 2015**, an increase of 48% over 2013, according to the latest edition of our annual Global State of Information Security survey. That is the equivalent of **117,339 attacks every day**. And the growing significance of cyber security in today’s world looks only set to continue as both the number of connected devices and the data that these devices generate continues to increase.
Security: a board-level issue for organisations

Over 90% of the world’s data has been generated in the last 5 years\(^1\). Corporations and government agencies globally are increasingly focused on threats of hacking and data theft, and stepping up to safeguard their intellectual property, customer and financial information.

The cost of cyber security breaches can be significant. A leading US retailer declared costs of c.$162m after hackers stole personal records and credit card details of more than 40m customers in 2013. These costs exclude reputational, fines and legal damages.

The European cyber security market of products and services protecting organisations from such breaches was worth $22bn in 2016 and is expected to grow at 8% p.a. to 2018, predominantly driven by increasing spend on services.

Cyber security spending, Western Europe, $bn, 2012-2018F

\(^1\) Åse Dragland, SINTEF, May 2013

Note: Forecast in constant 2014 $ 
Source: Gartner, PwC
Organisations’ IT footprints have become increasingly complex, driving demand for *more sophisticated and bespoke solutions*. A growing proportion of organisations (often lacking the required expertise in-house) are also deciding to *outsource their cyber security entirely, procuring managed security services (MSS)*.

*Cyber security outsourcing as a % of total Cyber security spend*

- **United States**: 35%
- **Rest of Western Europe**: 30%
- **Italy**: 25%
- **Germany**: 20%
- **Spain**: 15%
- **France**: 10%
- **Netherlands**: 5%
- **United Kingdom**: 0%

**Source:** Gartner IDC, PwC analysis

63% of non-MSS users are considering using MSS in the next 12 to 36 months
As organisations look to outsource their cyber security, they are looking for service providers that understand their security needs, have a proven track record and established market reputation, and are able to provide vendor-independent advice.

### Key purchase criteria when selecting cyber security providers

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Understands our needs</td>
<td>3.8</td>
</tr>
<tr>
<td>Reputation</td>
<td>3.8</td>
</tr>
<tr>
<td>Vendor-independent advice</td>
<td>3.7</td>
</tr>
<tr>
<td>Implementation &amp; maintenance</td>
<td>3.6</td>
</tr>
<tr>
<td>Value for money</td>
<td>3.6</td>
</tr>
<tr>
<td>Customer service</td>
<td>3.6</td>
</tr>
<tr>
<td>Variety of security products</td>
<td>3.6</td>
</tr>
<tr>
<td>Local presence</td>
<td>3.5</td>
</tr>
</tbody>
</table>

*Source: PwC cyber security buyer survey*
There is also growing demand for pan-European providers who have the breadth and depth of security expertise and are able to deploy and manage this in a consistent manner across geographies\(^2\).

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**Drivers of demand for pan-European providers**

#1 reason for choosing to work with pan-European Cyber security solution providers rather than national, by country

1. Broader range of products and services

2. Greater consistency between countries

3. Better value for money

4. Procurement synergies

*Source: PwC cyber security buyer survey*
The industry is responding

There are a number of types of service provider addressing the cyber security needs of businesses today. Amongst Telecom operators, System Integrators (SIs), generalist Value Added Resellers (VARs) and cyber security specialist VARs, there are very differing degrees of focus and competency in cyber security provision, as well as differences in the size of businesses served. Today, specialist cyber security VARs distinguish themselves with a unique market positioning, typically serving the cyber security product resale and implementation needs of small and medium sized businesses.

### Service provider types and typical characteristics

| Service provider type | Customer segment served | Cyber security focus | Competencies | | |
|-----------------------|-------------------------|----------------------|--------------|---|---|---|---|
|                       |                         |                      | Product      | Networks | Implementation | Managed/ outsourcing services | Hosting |
| Telco                 | Enterprise & SME        | (✓)                 | ✓            | ✓        | ✓              | ✓                          | ✓            |
| SI                    | Enterprise              | ✓                    | ✓            | ✓        | ✓              | ✓                          | ✓            |
| Generalist VAR        | SME                     | ✓                    | (✓)          | (✓)      | (✓)            | (✓)                        | (✓)         |
| Security focussed VAR | SME                     | ✓                    | ✓            | (✓)      | (✓)            | ✓                          | ✓            |

**Key**

- ✓ Core competency
- (✓) Secondary competency

*Source: PwC analysis*
The base of such European cyber security-focussed VARs is currently very fragmented, with the **top 15 players** accounting for **just one-third of the market**, with the **remaining two-thirds** comprising a ‘**long tail**’ of other service providers.

While historically these security-focussed VARs have been well placed to serve local needs, the majority have not significantly extended the breadth of their capabilities (i.e. beyond basic product resale and implementation) or coverage (i.e. beyond smaller-sized businesses).

An **opportunity exists** to fill this demand gap via a mix of organic growth and M&A, notably by:

- Supplementing security services offerings to include **managed security services** and;
- Selling to increasingly **large customers** (including on a **pan-European basis** more akin to SIs or Telecom operators)

*Estimated share of Cyber security market, Western Europe, 2014*

![Diagram showing estimated market share of Cyber security in Western Europe, 2014. The top 15 companies account for 66% of the market, with the remaining 34% made up by other companies. The total market size is $17bn.]

*Source: Company reports, PwC survey, IDC, Gartner*
# Emerging market leaders

There are already some compelling initial proof-points of several security-focussed VARs seizing this opportunity and gaining scale and reach: notably, NTT Com Security, NCC and SecureLink.

## Acquisition timeline for selected providers

<table>
<thead>
<tr>
<th>SecureLink</th>
<th>NCC</th>
<th>NTT</th>
</tr>
</thead>
<tbody>
<tr>
<td>ISSX</td>
<td>Axzona Ltd</td>
<td>Secode AB</td>
</tr>
<tr>
<td>Raido</td>
<td>Matasano Security</td>
<td>BDG GmbH &amp; Co KG</td>
</tr>
<tr>
<td>Zion Security</td>
<td>Intrepidus Group</td>
<td>Infotrust AG</td>
</tr>
<tr>
<td>CoreSec</td>
<td>FortConsult</td>
<td>Fox-IT</td>
</tr>
<tr>
<td>IT-CUBE</td>
<td>Accumul plc</td>
<td>Virtual Security Research</td>
</tr>
<tr>
<td>Nebulas</td>
<td>Payment Software Company</td>
<td>Language Research</td>
</tr>
</tbody>
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### 2011 - 2016

**Source:** Company websites, Mergermarket

**Note:** NCC and SecureLink 2016 acquisitions are not included in the revenues shown on p.12, which relate to FY 2015 only; Securelink IT-CUBE acquisition agreed in 2016 but completed January 2017.
Through scale, these providers are able to **better meet customer needs** and at the same time **operate more efficiently** (therefore assuring long-term service provision through financial stability).

**Better meeting customer needs**

8 out of 10 buyers surveyed see value in more pan-European service providers

**Driving cost efficiencies**

- **Buying consolidation** — opportunity to optimise selected negotiated rates across portfolio of acquired businesses as well as renegotiate on the basis of increased volumes

- **Back office simplification** — scope for systems rationalisation, such as providing support/services to more customers across Europe from a select number of distributed security operations centres (SOC), as well as back-office rationalisation (e.g. finance)

*Source: PwC cyber security buyer survey*
The breadth of geographical and product/service coverage (including provision of more complex managed security services) of these three providers is visible relative to their fragmented peer set and a source of competitive advantage. **NCC and SecureLink, in particular, have outperformed the market to become the two largest independent European service providers, smaller only than NTT-owned NTT Com Security.**
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Source: Company websites, Orbis, Companies House
Note: All revenues relate to FY2015 with the exception of Voquz which relates to FY2014; Revenue growth presented is for last 5 years available with the exception of DCI for whom 14-15 YOY growth is taken. All other information is latest available from public sources at the time of publication.

**DCI**
- **Revenue and EBITDA margin**: $52m
- **Revenue Growth**: 13%, -18%
- **Headcount**: 85
- **Product services/breadth**: # countries present

**SecureData**
- **Revenue and EBITDA margin**: $47m
- **Revenue Growth**: 8%, 17%
- **Headcount**: 113
- **Product services/breadth**: # countries present

**Voquz**
- **Revenue and EBITDA margin**: $40m
- **Revenue Growth**: 2%
- **Headcount**: 63
- **Product services/breadth**: # countries present

**Open Systems**
- **Revenue and EBITDA margin**: $38m
- **Revenue Growth**: EBITDA n/a
- **Headcount**: 160
- **Product services/breadth**: # countries present
The cyber security industry is responding to the increasingly complex cyber threat environment in which organisations now find themselves. **Service providers such as NTT, NCC and SecureLink are early frontrunners, proof of the ability of security-focussed service providers to grow beyond specific local markets through a mix of organic growth and M&A.** These specialist providers appear well positioned to be able to meet customer needs, while operating in a way that provides comfort around their long-term financial stability (and indeed growth) going forward.

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**Contacts**

**Barry Jaber**  
Partner, UK Technology Industry Strategy Leader  
Tel: +44 (0)20 7213 3522
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