VENTUREDEAL M&A ANALYSIS

MobileIron Acquires Incapptic For Mobile Deployment Tech

Rapid7 To Acquire DivvyCloud For Cloud Security Tech

Optum May Acquire AbleTo For $470 Million

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VentureDeal

MobileIron Acquires Incapptic Connect For Mobile Deploy Tech

Quick Take

MobileIron (MOBL) has announced the acquisition of incapptic Connect for an undisclosed amount.

incapptic has developed a system to improve the release processing of mobile applications.

With the deal, MOBL brings in-house an existing partner as it navigates a transition to a subscription revenue model amid a global pandemic.

My bias on the stock is Neutral given the firm’s slow revenue growth combined with these operational and business model uncertainties.

Target Company

Berlin, Germany-based incapptic was founded to develop a mobile software system that automates the app deployment process which promises to improve the app upgrading process for developers.

Management is headed by founder and CEO Rafal Kobylinski, who was previously a software test engineer at Samsung and received his engineering education at the Warsaw University of Technology.

Below is an overview video of incapptic's solution on the MobileIron app store:

Source: incapptic Connect

Company major customers include:

- Lufthansa
- Claas
- Schindler
- Henkel

Market & Competition

According to a 2019 market research report by Technavio, the market for global unified endpoint management is expected to grow by more than $11 billion through 2024.

This represents a forecast CAGR (Compound Annual Growth Rate) of nearly 36% from 2020 to 2024, as shown in the chart below:

The main drivers for this expected growth are the increasing complexity of IT infrastructure, growing use of IoT devices and increasing frequency of system updating is expected to drive growth in demand.

Major vendors that provide competitive services include:

- Citrix (CTXS)
- IBM (IBM)
- Cisco (CSC)
- Microsoft (MSFT)
- Okta (OKTA)
- Ivanti
- AirWatch

Source: Research Report

Acquisition Terms & Financials

MobileIron did not disclose the acquisition price or terms and didn't file a form 8-K, so the deal was likely for a financially non-material amount.

Management also didn't provide a change in financial guidance as a result of the transaction.

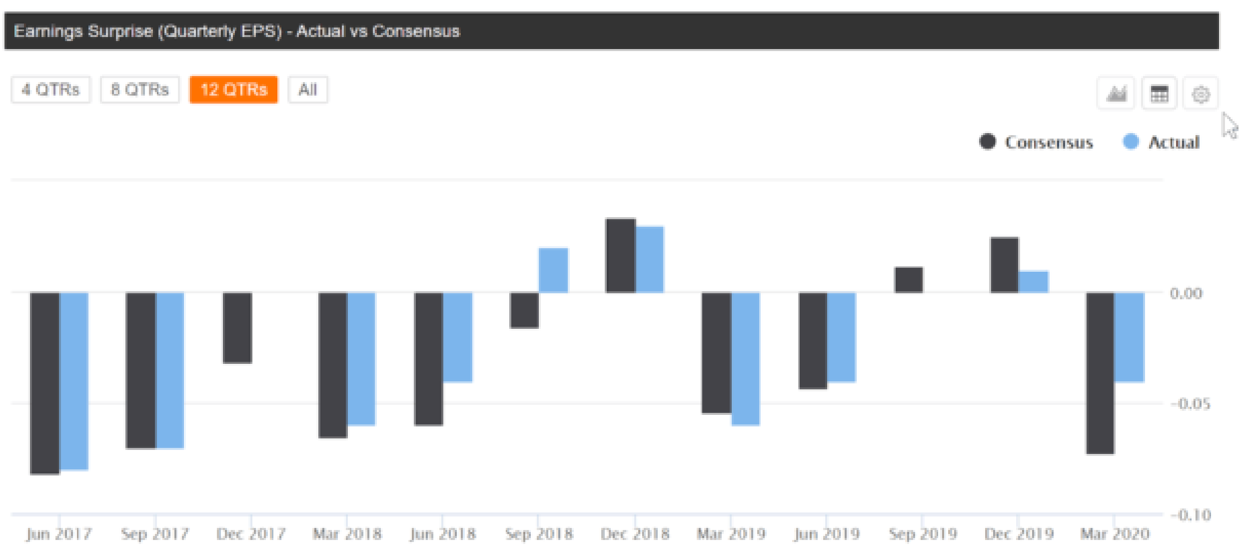
A review of the firm's most recently published financial results indicate that as of March 31, 2020 MobileIron had $98.6 million in cash and equivalents.

Free cash flow for the twelve months ended March 31, 2020 was $1.7 million.

In the past 12 months, MobileIron's stock price has fallen 19.4% vs. the U.S. Software industry's rise of 19.6% and the U.S. overall market index' fall of 0.9%, as the MOBL chart indicates below:

Source: Simply Wall St.

Earnings surprises versus analyst consensus estimates in seven of the last twelve quarters, as the chart shows here:



Source: Seeking Alpha

Valuation Metrics

Below is a table of relevant capitalization and valuation figures for the company:

Measure	Amount
Market Capitalization	$588,300,000
Enterprise Value	$503,780,000
Price / Sales	2.73
Enterprise Value / Sales	2.45
Enterprise Value / EBITDA	-11.31
Free Cash Flow [TTM]	$11,260,000
Revenue Growth Rate	6.23%
Earnings Per Share [FWD]	-$0.12

Source: Company Financials

If no DCF: As a reference, a potential public comparable to MOBL would be Rapid7 (RPD); shown below is a comparison of their primary valuation metrics:

Metric	Rapid7 (RPD)	MobileIron (MOBL)	Variance
Price / Sales	6.79	2.73	-59.8%
Enterprise Value / Sales	7.07	2.45	-65.3%
Enterprise Value / EBITDA	-98.36	-11.31	-88.5%
Free Cash Flow [TTM]	$12,350,000	$11,260,000	-8.8%
Revenue Growth Rate	33.9%	6.2%	-81.6%

Source: Seeking Alpha

Commentary

MOBL acquired incapptic to add its automatic mobile release updating technology offering to its unified endpoint management platform.

As MOBL president and CEO Simon Biddiscombe stated in the deal announcement,

As companies increasingly turn to in-house software development to transform work processes and deliver great employee experiences, their competitive differentiation will be tied to their ability to quickly, easily and securely build and distribute applications to their users. Together, with incapptic Connect as a part of MobileIron, we will help companies confidently and securely accelerate the realization of their digital workplace initiatives.

So, the acquisition is essentially a bolt-on deal. While we don't know how much MOBL paid for the company, it was likely on a 'team and technology' basis.

There is likely no integration risk, as the two firms have partnered with each other for several years.

The deal will probably not move MOBL' stock, but provides a window into management's priorities in allocating resources.

MobileIron needs to reignite growth. Compared to Rapid7, the company's revenue growth has been disappointing, so it isn't surprising the firm's stock has a lower valuation.

Will MOBL benefit from the effects of the Covid19 pandemic, which is expected to increase demand for distributed work arrangements and endpoint management?

Investors may be optimistic in this regard, but I would caution against too much optimism.

MOBL is also navigating a transition to a subscription revenue model in 2020 at the same time as dealing with the pandemic's effects on its operations and likely lengthier sales cycles.

While management may be preparing for a longer term business shift, the short-term results may suffer, so my bias on the stock is Neutral.

Rapid7 To Acquire DivvyCloud For Cloud Security Tech

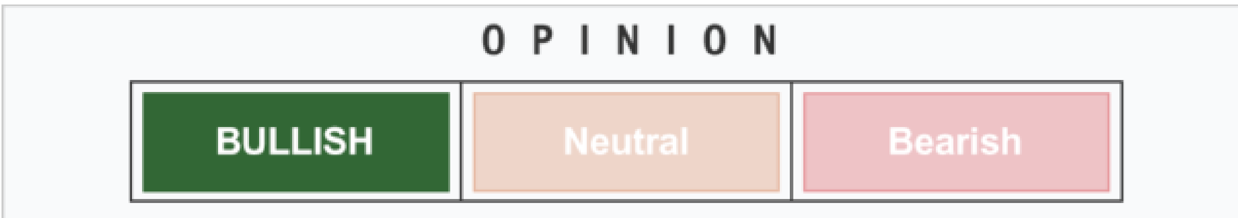
Quick Take

Rapid7 (RPD) has announced the proposed acquisition of DivvyCloud for $145 million.

DivvyCloud has developed a Cloud Security Posture Management platform to help enterprises prevent breaches through misconfigurations and other infrastructure vulnerabilities

With the deal, RPD adds to its inorganic growth initiatives as it pursues a disciplined and opportunistic acquisition strategy to increase its total addressable market and enterprise landing points.

My bias on the stock is Bullish.



Target Company

Arlington, Virginia-based DivvyCloud was founded to help enterprises secure their public cloud environments as DevOps teams update systems on a regular basis, reducing the chance for misconfigurations from multiple and ongoing maintenance and system upgrades.

Management is headed by co-founder and CEO Brian Johnson, who was previously Director Operations at BioWare Mythic and Unix Administrator at Cogent Communications.

Below is an overview video of DivvyCloud's offering:

Source: DivvyCloud

Company partners include:

- Amazon Web Services (AMZN)
- Microsoft Azure (MSFT)
- Google (GOOG)
- Alibaba (BABA)
- Kubernetes

Investors have invested at least $28.9 million and include Providence Strategic Growth, RTP Ventures, and Mission OG.

Market & Competition

According to a 2018 market research report by Grand View Research, the market for cloud security products and services is expected to exceed $12.5 billion by 2024.

This represents a forecast CAGR (Compound Annual Growth Rate) of 13.9% from 2019 to 2024.

The main drivers for this expected growth are a continuing and historic shift by enterprises from on-premises systems to public cloud environments as well as the shift to a much higher frequency of system upgrades, leading to the need for continuing security monitoring and remediation of vulnerabilities at scale.

Major vendors that provide competitive systems include:

- Palo Alto Networks (PANW)
- Fugue
- IBM (IBM)
- Symantec
- CipherCloud

Source: Research Report

Acquisition Terms & Financials

Rapid7 disclosed the acquisition price and terms as $145 million total consideration, with $128.3 million paid in cash, $7.4 million in deferred cash payments and $9.3 million in stock.

Management's change in financial guidance as a result of the proposed transaction was minor.

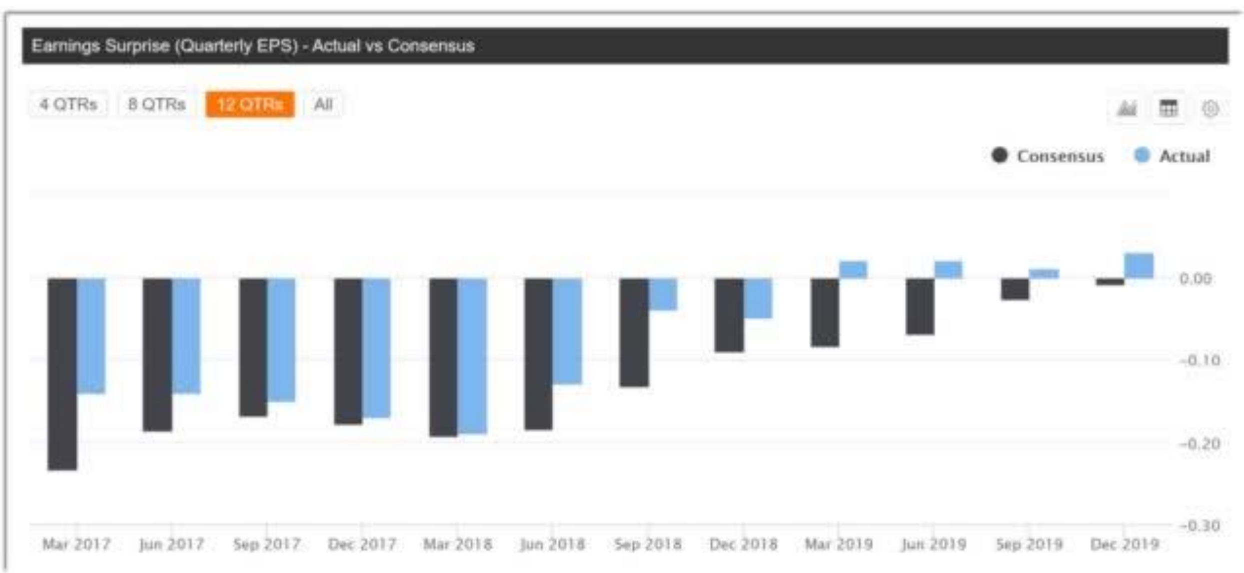
A review of the firm's most recently published financial results indicate that as of December 31, 2019 Rapid7 had $239.6 million in cash and short term investments and $581.7 million in total liabilities, of which $185.2 million was long-term debt.

Free cash flow for the twelve months ended December 31, 2019 was a negative ($30.8 million).

In the past 12 months, Rapid7's stock price has dropped by 10.5% vs. the U.S. Software industry's rise of 14.3% and the U.S. overall market index' fall of 3.7%, as the RPD chart indicates below:

Source: Simply Wall St.

Earnings surprises versus analyst consensus estimates have been positive in all twelve of the last twelve quarter, as the chart shows here:



Source: Seeking Alpha

Valuation Metrics

Below is a table of relevant capitalization and valuation figures for the company:

Measure	Amount
Market Capitalization	$2,360,000,000
Enterprise Value	$2,380,000,000
Price / Sales	7.00
Enterprise Value / Sales	7.29
Free Cash Flow [TTM]	$12,350,000
Revenue Growth Rate	33.94%
Earnings Per Share	$0.10

Source: Company Financials

As a reference, a potential public comparable to RPD would be Qualys (QLYS); shown below is a comparison of their primary valuation metrics:

Metric	Qualys (QLYS)	Rapid7 (RPD)	Variance
Price / Sales	12.73	7.00	-45.0%
Enterprise Value / Sales	11.94	7.29	-38.9%
Free Cash Flow [TTM]	$94,580,000	$12,350,000	-86.9%
Revenue Growth Rate	15.3%	33.9%	121.5%

Source: Seeking Alpha

Commentary

RPD is acquiring DivvyCloud as a strategic deal to expand its cloud-based security offerings in the enterprise.

As Rapid7's chairman and CEO Corey Thomas stated in the deal announcement,

With the acceleration of cloud adoption introducing new enterprise risk areas, we're excited to bring Security and DevOps teams together with DivvyCloud's best-of-breed compliance, risk management and governance for multi-cloud and container environments, while also integrating it with our Insight Cloud platform to create enduring customer value.

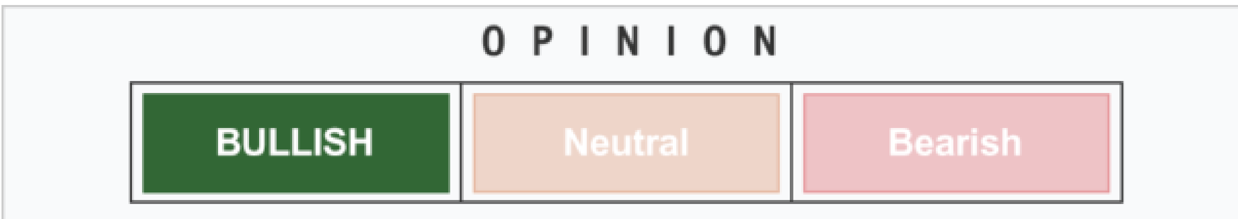
As the role and importance of DevOps activity increases along with the frequency of system updates, the need to automate misconfiguration analysis and remediate is becoming a more mission critical requirement for enterprises as they move more of their operations to the cloud.

Rapid7 hopes to increase its TAM as a result of the deal, which it views as providing it the ability to build additional functionalities.

With DivvyCloud, RPD has a stronger offering set to augment its insight AppSec and tCell capabilities.

While RPD sold off along with the rest of the market in the Covid19-induced swoon in March, I like the firm's earnings trajectory.

Assuming a continued opportunistic and disciplined acquisition strategy, RPD will continue to increase the 'attack surface' of its landing opportunities within the enterprise, so my bias on the stock is Bullish.



Optum May Acquire AbleTo For $470 Million

Quick Take

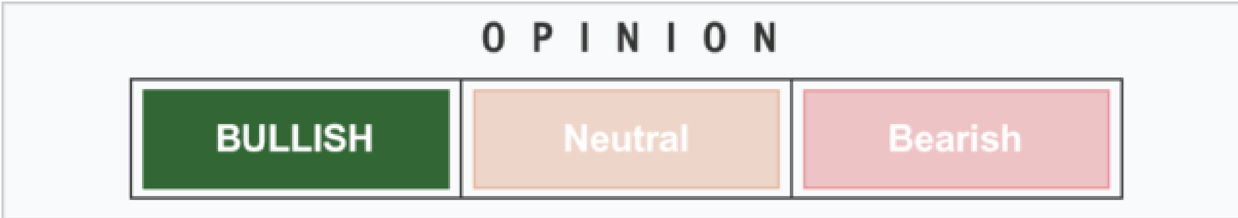
UnitedHealth's (NYSE:UNH) Optum division is in advanced talks to acquire AbleTo for $470 million, according to a news report.

AbleTo has developed a virtual behavioral health therapy and personal support telehealth service.

With the deal, UNH's Optum would add an important capability to its suite of offerings.

UNH stock has performed well with other healthcare stocks in the stock market selloff and now economic recession.

Although my DCF indicates it is fully valued, my bias on UNH is Bullish through at least the end of 2020.



Target Company

New York, NY-based AbleTo was founded to provide consumers with behavioral healthcare services delivered remotely via its proprietary platform.

Management is headed by CEO Trip Hofer, who has been with the firm since July 2018 and was previously General Manager at NovoLogix and Vice President of Product Development at CVS Specialty.

Below is an overview video of AbleTo:

Source: AbleTo

The company connects licensed therapists with consumers via either telephone or secure video conference.

Investors have invested at least $46.6 million and include Bain Capital Ventures, Horizon Healthcare Services, HLM Venture Partners, Aetna and .406 Ventures.

Market & Competition

According to a 2019 market research report by IBISWorld, the market for telehealth services in the U.S. will reach an estimated $2.6 billion in 2020. This represents a year-over-year growth rate of 9.2%. Telehealth services will have grown at an estimated average annual rate of 25.2% from 2015 to 2020.

The main drivers for this expected growth are an aging population requiring more health services, increased technology capabilities, and a need for the existing healthcare system to more efficiently deal with larger numbers of patients with chronic conditions.

Major vendors that provide telehealth services include:

- American Well
- Teladoc (NYSE:TDOC)
- CareClix
- Doctor on Demand
- MD Aligne
- MDLIVE

- Specialists on Call
- MeMD

Source: Research Report

Acquisition Terms & Financials

According to the report, Optum is discussing paying $470 million, which represents 10x forward revenues.

If the deal is done for that amount, it would likely represent more than double an aggregate of publicly held company valuations, per an NYU Stern School data set for Healthcare Information and Technology companies, which were trading around a 5x Price/Sales multiple in January 2020.

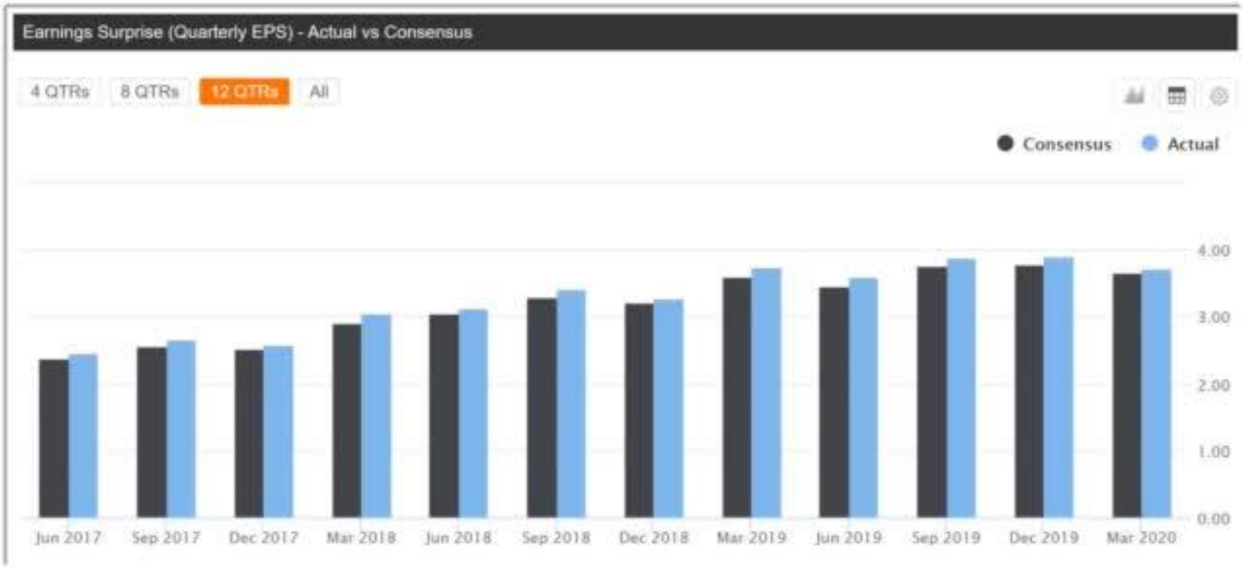
A review of the firm's most recently published financial results indicates that, as of March 31, 2020, UNH had $21.6 billion in cash and equivalents and $127.5 billion in total liabilities of which $35.8 billion was long-term debt.

Free cash flow for the twelve months ended March 31, 2020, was $16.2 billion.

In the past 12 months, Optum's stock price has risen 24.3% vs. the U.S. Healthcare industry's rise of 16.95 and the U.S. overall market index's fall of 3.7%, as the UNH chart indicates below:

Source: Simply Wall St.

Earnings surprises versus analyst consensus estimates in all twelve of the last twelve quarters, as shown in the chart below:



Source: Seeking Alpha

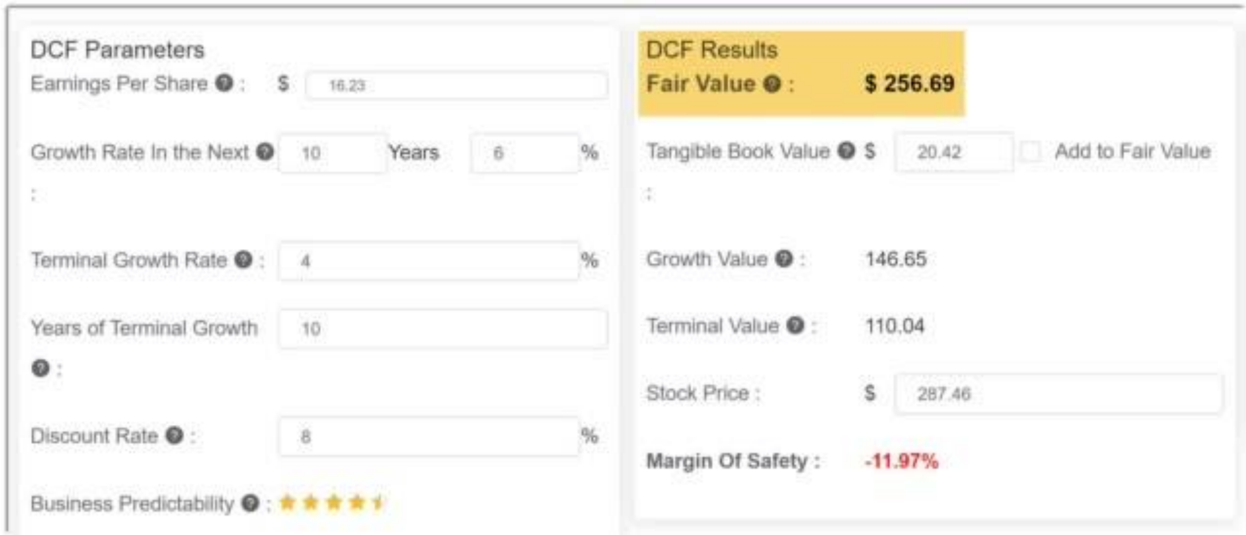
Valuation Metrics

Below is a table of relevant capitalization and valuation figures for the company:

Measure	**Amount**
Market Capitalization	$273,200,000,000
Enterprise Value	$304,980,000,000
Price / Sales	1.11
Enterprise Value / Sales	1.24
Enterprise Value / EBITDA	13.91
Free Cash Flow [TTM]	$10,810,000,000
Revenue Growth Rate	6.44%
Earnings Per Share [FWD]	$16.23

Source: Company Financials

Below is an estimated DCF (Discounted Cash Flow) analysis of the firm's projected growth and earnings:



Assuming the above generous DCF parameters, the firm's shares would be valued at approximately $257 versus the current price of $287, indicating they are potentially currently fully valued, with the given earnings, growth and discount rate assumptions of the DCF.

Commentary

UNH's Optum division may be acquiring AbleTo add telehealth capabilities to its list of service offerings.

With the COVID-19 pandemic, the need for being able to offer remote services not only fills a need for greater efficiency but also provides customers with services in the comfort and convenience of their own home as well as through the means of their choice, by phone or video.

If the deal is done as the news report indicates, Optum will likely be paying a premium to acquire the system.

Strategically, it appears to make sense. Financially and depending on the deal terms, UNH may be getting AbleTo for less than otherwise, since UNH stock has performed quite well vis a vis the overall market.

As for UNH stock, my DCF indicates it is fully valued at its present level, given generous assumptions.

However, healthcare stocks have performed quite well throughout the market volatility and may continue to do so through the recession, which is expected to be deep and sharp.

My bias would normally be neutral based on the DCF, but given the recession reality and the strong performance of healthcare stocks despite economic tailwinds, my bias on UNH is Bullish.

O P I N I O N

BULLISH	Neutral	Bearish