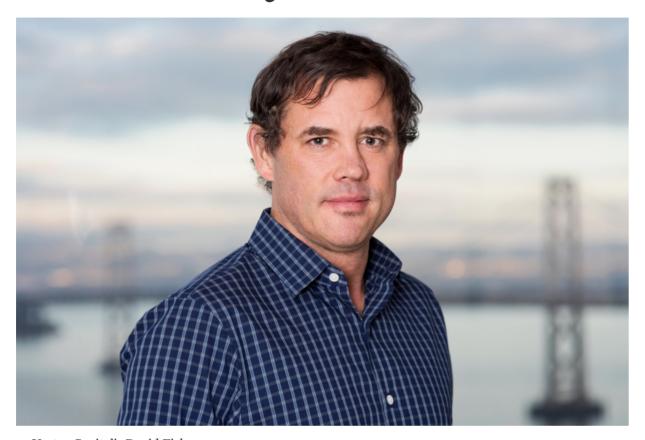
Vector Capital's Plan for Maximizing Malwarebytes



Vector Capital's David Fishman

Managing Director David L. Fishman discussed the firm's latest moves in cyber security and strategy for investing in tech.



By Chris Nolter
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Vector Capital Management LP recent investment in cybersecurity company Malwarebytes Inc. meets an important criteria for the sponsor.

"Our best investments have been ones where we partner with leaders who have a deep, emotional commitment to the business, whether it's management teams that

would like to see the company do better but need help or whether it's founders who need operational assistance," Vector Capital Managing Director David L. Fishman told The Deal in an interview about the investment and the technology sponsor's decades-long approach to cybersecurity.

Malwarebytes co-founder and CEO Marcin Kleczynski fits the description. Kleczynski took up cybersecurity in his teens after infecting his family's computer with a virus and started Malwarebytes in 2018 as a freshman at the University of Illinois at Urbana Champaign.

Kleczynski's emotional commitment to the business and Vector's decades of experience in cybersecurity and software helped the parties reach a deal on a \$100 million investment in September, despite volatility in the financial markets. "The transaction went through a number of gyrations given the markets," Fishman said. "It came together because Marcin saw, I think, a team that is going to invest and help him operationally and we saw a company with tremendous opportunity."

Maximizing Malwarebytes

Malwarebytes provides a range of services such as antivirus, virtual private networks, malware blocking and removal to consumers and businesses.

The Santa Clara, Calif., company was the top ranked provider for protecting endpoints — such as laptops, desktops, servers, mobile devices that connect to networks — by software review group G2.com Inc. in a listing of more than 40 private and public competitors. The field includes NortonLifleLock Inc.'s (NLOK) Symantec; Eset LLC; CrowdStrike Holdings Inc. (CRWD); Fortinet Inc. (FTNT); Open Text Corp.'s (OTEX) Webroot Inc.; Sophos Ltd., which Thoma Bravo LP took private in 2020; Check Point Software Technologies Ltd (CHKP); Moscow-based Kaspersky Lab Ltd; Norwest Venture Partners-backed Cynet Security Ltd.; and Advent International Corp.- and Permira-backed McAfee Corp.

Vector approached portfolio companies with input from its in-house value-creation team, a group of about 20 operating professionals who advise on matters from product strategy and pricing to IT infrastructure and supply chains. "Every dollar of capital that we've ever invested has always come with the belief that our capital comes with transformational assistance," Fishman said.

From a strategic perspective, much of the potential for Malwarebytes lies in maximizing the consumer and corporate sides of the business. "Where we think we can really add value is helping management delineate them further so they each get the attention and focus they need," he said. "How to run the businesses independently, how to structure them independently, how to incentivize them independently." He declined to comment about whether that could ultimately mean splitting the businesses apart.

On the financial side of the deal, Vector purchased the position of FMR LLC's Fidelity Management and Research Co. LLC and joins existing investor Highland Capital Partners. "An important part of it was making sure that the company had the right owners, board and capital stack that made sense for its next phase," Fishman said.

Cyber Strategy

Vector has been investing in cybersecurity since the field was known as IT security. "It goes back a long way," Fishman said of the portfolio.

The firm typically invests in companies with about \$100 million to \$500 million in revenue. "It's a size that we think is both defensible and in which we can make a difference," Fishman said. With larger companies, he said, it can be difficult to do that. "We can move the needle on companies between \$100 million to \$500 million, which is where Malwarebytes fits," he added. "We also get what we think is the appropriate defensibility in terms of size and attracting the right teams."

Deals include Vector's 2002 purchase of systems and security management company Landesk Software Inc. from Intel Corp. (INTC) for an undisclosed sum. A case study on the sponsor's website described Landesk as an "orphaned" business within chipmaking giant Intel, with lagging sales and marketing. In the four years before Vector sold the business to Avocent Corp. for \$416 million in 2006, the website states, Landesk's revenues more than tripled.

The firm bought SafeNet in 2007 for \$634 million, amid a Securities and Exchange Commission investigation into options backdating at the data protection company. A Vector case study says the deal was the first-ever LBO of a company with unaudited financials. The sponsor sold the business to Gemalto NV for \$890 million in 2015.

In 2006, the firm and Francisco Partners purchased WatchGuard Technologies Inc., a Seattle network security platform that provides firewalls, virtual private networks, spam filters, malware protection and other offerings. Sixteen years into the investment, Vector agreed to buy Francisco Partners' stake in late April 2022. "If we see the right opportunity, we're never going to feel a compulsion just to exit for exiting's sake," Fishman said of the extended holding period. WatchGuard CEO Prakash Panjwani previously ran SafeNet for Vector.

Security Amid Volatility

While market conditions complicated the Malwarebytes negotiations, Fishman suggested that other opportunities to put capital to work will arise.

"Liquidity is a factor," Fishman said, suggesting that companies will need help operating in the turbulence, reworking their businesses or perhaps both.

"This is not a momentum investing environment," Fishman said. "We don't want economical malady, but we're pretty excited about our ability to invest right now."