

REPORT REPRINT

Rapid7 adds search capabilities with \$68m acquisition of Logentries

ERIC OGREN, ADRIAN SANABRIA

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Rapid7 has enhanced its vulnerability management and security incident-detection capabilities with the purchase of Logentries' search and log management services. To cover the deal, the newly public company will use some cash and stock from its midsummer IPO.

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Rapid7 has enhanced its vulnerability management and security incident-detection capabilities with the purchase of Logentries' search and log management services. The acquisition marks Rapid7's first deal since its mid-July IPO, which raised slightly more than \$100m. This is the third transaction that the Boston-based company has made in its effort to expand from penetration testing into a comprehensive threat management provider.

RAPID7 M&A

Date acquired	Target	Security segment	Deal value
October 13, 2015	Logentries	Search and log management	\$68m
May 4, 2015	NT OBJECTives	Application testing	\$6.5m
October 9, 2012	Mobilisafe	Mobile risk management	\$7.1m
October 21, 2009	Metasploit	Penetration testing	\$1.1m

THE 451 TAKE

Organizations with large security compliance-driven investments in prevention technologies are turning their attention toward data-driven tools to discover vulnerabilities, detect compromises and accelerate responses to incidents. Rapid7 is well-positioned to meet demands from this trend. The pickup of Logentries enhances Rapid7's offering with the ability to search extensive log data to further help IT organizations discover anomalies and remediate incidents. We believe this move adds significant value to the data collected by Rapid7's scanning engines and will benefit the security operations of medium-sized organizations.

DEAL DETAILS

To cover its largest acquisition, Rapid7 will be drawing on both cash and stock that it raised in its IPO. (As an aside, Rapid7 is the only enterprise technology vendor to go public in 2015 at a higher valuation than its last round of funding as a privately held company. The other four offerings are all underwater.) The acquirer will hand over a total of \$68m (\$36m in cash and \$32m in equity) for Logentries. Rapid7 notes that the target will contribute \$4m-5m in revenue next year. Atlas Technology Group advised Logentries on its sale.

ACQUIRER PROFILE

Founded in 2000, Rapid7 helps organizations maintain the integrity of their networks by searching for vulnerabilities, detecting signs of intrusions and optimizing incident-response activities. The company expects to generate \$102-105m in revenue in 2015. Wall Street values it at roughly \$900m, or about 9x current year revenue. That's slightly above the trading valuation of rival Qualys, which is larger but growing slower.

TARGET PROFILE

Logentries was founded in 2010 as RevelOps in Dublin. The company has approximately 70 employees split between Boston and Dublin, with technical staff remaining in Dublin. It offers log management and advanced search capabilities and gives customers a choice between subscription and perpetual license pricing schemes. Logentries has accumulated more than 3,000 customers worldwide.

The company's key technical capabilities include:

- Search features that provide opportunities for customers to significantly reduce the costs of incident response by automating the collection of relevant data.
- An API to the search functionality that allows enterprises to customize searches to detect anomalies, clarify information and report on compliance with security policies for their unique environments.
- Utilization of AWS, which permits Logentries to scale to large amounts of log information while keeping the data close to the customer.

COMPETITIVE OUTLOOK

The competitive field includes a long list of vendors looking to help customers protect the integrity of their networks with vulnerability management, compromise detection and incident-response acceleration. Vulnerability-scanning providers are naturally looking to extend their offering into a more comprehensive security service. This is driven partly by the possibilities inherent in possessing scanned vulnerability and configuration data, and partly by the desire to push past consumptive revenue models limited by the number of scans. Contenders from the vulnerability management and penetration testing space include Core Security, Qualys and Tenable.

SIEM suppliers amass substantial amounts of security data collected from deployed security products, flow data and application events. An array of players has arisen with analytic services based on processing SIEM data. These include Bay Dynamics, Exabeam, Fortscale, ObservIT, Prelert, Prevalent, Securonix and Splunk.

Many security analytic vendors are dependent on information collected in SIEM repositories. Rapid7 actually scans for vulnerability and configuration information that is not commonly reported to SIEMs by security providers. We think this gives Rapid7 clearer visibility into the customer's infrastructure and provides an advantage over many competing behavioral analytic firms that rely on other products reporting relevant data.

ACQUIRER

Rapid7

TARGET

Logentries

SUBSECTOR

Security management

DEAL VALUE

\$68m in cash and stock

DATE ANNOUNCED

October 13, 2015

CLOSING DATE

October 13, 2015

ADVISERS

Atlas Technology Group (Logentries)