

Cash-Rich Symantec To Buy PGP, GuardianEdge For Encryption Tech

By Scott Denne
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Symantec Corp. gave a boost to two groups of investors by agreeing to acquire a pair of venture-backed companies for a total of \$370 million in cash.

The Mountain View, Calif.-based company will buy PGP Corp. for about \$300 million and GuardianEdge Technologies Inc. for about \$70 million. Investors in both companies said the deals will deliver good returns, but all declined to be more specific.

Symantec has been a frequent acquirer of venture-backed companies over the years, having purchased 20 other such companies since 2002, according to Dow Jones VentureSource. However, this is the first venture-backed company it has acquired in about a year - the last was Mi5 Networks Inc. in March 2009, although it has made a few purchases of non-venture funded companies since then.

With the cash on its balance sheet growing to \$2.59 billion in January, up from \$1.44 billion the year before, it has plenty of ammunition to buy more.

The company declined to discuss the potential for future deals.

PGP, which had raised \$51.3 million in venture capital from DCM, D.E. Shaw Group, Intel Capital and Venrock, makes software that encrypts data at points across the network and sells the software to manage encryption keys. Earlier this year, it added .406 Ventures, Castile Ventures and Prism VentureWorks to its cap table after a stock acquisition of Chosen Security Inc.

At the time of that deal, PGP's chief financial officer, Alex Doll, told VentureWire that the combined company would have annual revenue beyond \$100 million.

"You build for the public markets, but along the way opportunity presents itself," said Ray Rothrock, a partner with Venrock. Taking the cash now provided investors with a certainty that they would not have had if they continued to build the business over the next two or three years toward a public offering, he said.

PGP was founded in 1991 as Pretty Good Privacy Inc. It was acquired by McAfee Inc. in 1997 and spun out again in 2002 with an investment from DCM and Venrock.

The second acquired company, GuardianEdge, had raised \$16 million over two rounds, with the latest round, a \$10 million Series B, coming nearly three years ago. Its investors included Altos Ventures, Black River Ventures, Cardinal Venture Capital and Thomvest.

The San Francisco-based company, which provides encryption software for desktops, laptops and portable storage devices, was founded in 2002 and raised its first round in 2005.

"It was a good return for us, even better for" Series A investors Altos and Cardinal, said Don Butler, a general partner at Thomvest. He put the company's annual revenue at about \$20 million.

The deal made sense for GuardianEdge because its products were already partially integrated with Symantec's Altiris PC management software through an OEM agreement, and many GuardianEdge customers were buying Altiris to manage deployments of GuardianEdge products, Butler said.

Symantec said in a conference call Thursday morning that it expects the acquisitions will contribute about \$55 million to \$60 million to GAAP revenue during 10 months of operations in fiscal year 2011.

The acquisitions highlight the ongoing challenge of securing data on an ever-increasing number of computer devices - from desktops to smartphones to data centers located in the cloud - and the increasing demand for encryption technology. In a commentary on the deal, Credit Suisse noted that the encryption market is estimated to grow at a compounded annual growth rate of 14% to \$1.7 billion in 2013.

"Encryption is one of the most fertile subsets of the security-technology industry," said Daniel H. Ives, an analyst with investment bank FBR Capital Markets Corp. in New York. "And these acquisitions double Symantec's bet in the encryption market."

More specifically, PGP's encryption-key management technology will enhance Symantec's Protection Center products and bring a global customer base to the company, Symantec said. GuardianEdge will boost the company's government-sector business and will add mobile-device security products to Symantec's portfolio.

The two deals are expected to close sometime in the June quarter.