

MIME Investment Intro: A Differentiated Thesis With Strong Returns

Long on Mimecast Limited, a cloud-based cybersecurity provider deeply mispriced due to market pessimism despite extensive runway for growth, with a **4-year price target of \$114.98, implying a 29.3% IRR**

Investment Summary

- MIME provides **cloud-based cybersecurity services** for corporate clients across the globe
- Product offerings focus on securing and encrypting email and related communications
- Founded in 2003 and based in London, UK
- Positive FCF business with high revenue growth (32% 5-year CAGR) and consistently improving gross and EBITDA margins
- Expected **LT Gross Margins of 80%** and **LT FCF Margins of 30%**

Reasons Mispriced

- **Recent security attack** caused substantial share price depression despite limited impact on long-run business quality or prospects
- Margin expansion from **imminent public sector moat** missed by the market
- **International market expansion** has potential to result in outsized top-line growth
- Investors are over-penalizing temporary COVID-induced low upselling capabilities

Cap Table (as of 03/25/2021)

NASDAQ: MIME	
Price	\$40.10
Shares Outstanding	63.89 M
Market Cap	\$2561.00 M
(-) Cash	\$230.71 M
(+) Debt	\$261.42 M
Enterprise Value	\$2,591.71 M

Financials (as of 03/25/2021)

EV/LTM EBITDA	31.1x
EV/LTM Revenue	6.7x
LTM Revenue Growth	20.9%
Gross Margin	74.9%
EBITDA Margin	12.2%
Net Retention Rate	106%

Company Overview: Best-in-class Business with Strong Fundamentals

MIME offers top-tier email defense subscription services to a diverse customer base, which has helped the company and the management team win numerous accolades for performance and excellence

Product Offerings

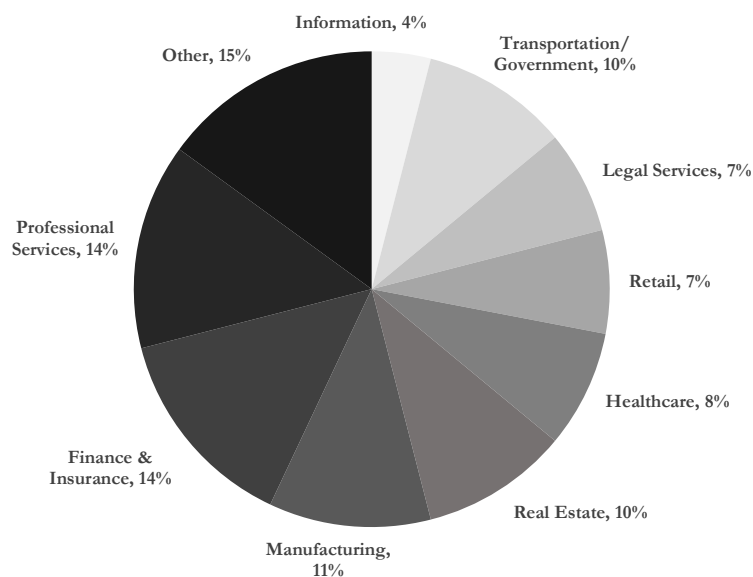
Email Security 3.0 Platform

- **Zone 1 Services:** perimeter defense through gateways and TTP platforms
- **Zone 2 Services:** internal email protection, human awareness training
- **Zone 3 Services:** offensive measures to fight back against cyber threats, such as DMARC Analyzer

Exceptional Management

- Leadership team has **extensive experience in driving inorganic growth** and establishing partnerships, carving out a collaborative runway
- Compensation plan incentivizes net new ARR growth and higher Operating Incomes, **aligning with long-term shareholder interests**
- Recognized leader by industry experts, user reviews, and employees – 96% approve of CEO (Glassdoor, out of 261 reviews)

Customer Diversification



Extensive Award Boardroom



Industry Overview: Tailwinds Imply Long-term Secular Runway

MIME will not only outperform as a business, but also benefit from extended industry-wide tailwinds as businesses care more about the defense of their online communication from cyber threats

COVID Digitalization Foreshadows Growth

- Pandemic has accelerated the decade-long transition into the digital, cloud age
- Morgan Stanley expects a **21% data transformation CAGR** between 2020-2025
- When businesses adopt digital resources, their primary **near-term concern is completing migration and usage** across segments
- Cybersecurity contracts follow, meaning that the **full potential** of COVID-driven shift **may not be realized until Q1 FY 2022**

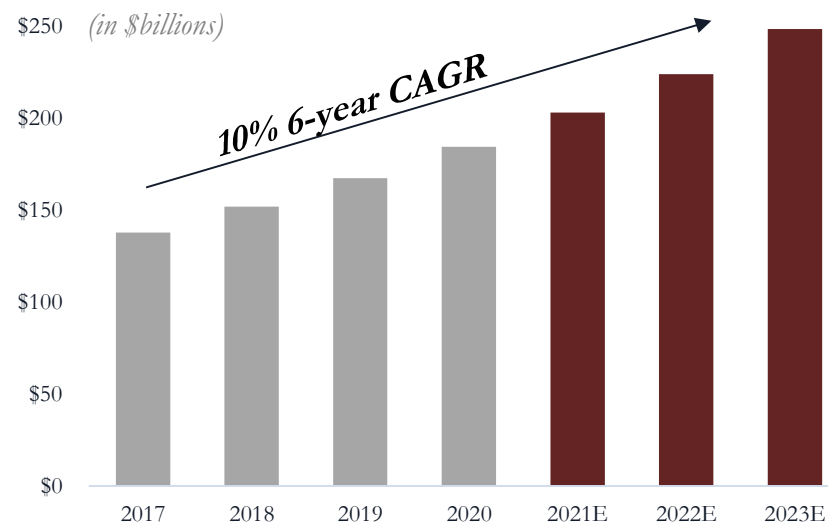
MIME in Position to Capitalize

- Secular trends will help fuel top-line growth and improved revenue retention profile
- Gross margins have consistently improved (runway to S-tier 80% levels) and operating margins recently hit positive numbers and improving to 20% LT margins
- **Pure play focus is leading to business efficiency and future FCF outperformance: clients want best-in-class service over lower quality end-to-end solutions**

Competitor Analysis

Ticker	EV/Rev	Rev Growth ¹	EBITDA Margin
MIME	6.0x	20.88%	12.2%
PANW	9.5x	18.80%	0.8%
ZS	54.8x	44.17%	-21.1%
SPLK	12.0x	3.91%	-29.8%

Global Cybersecurity Market Growth



Differentiation: Market Over-Penalizing Non-Core Issues

Despite MIME's continued growth and upselling strength, sell-side has downgraded the company and over-penalized the stock for the recent security attack, causing severe mispricing

Market View

- **Poor macro environment in the UK and South Africa** is depressing the multiple
- Multiple downgrades in the last two quarters due to weakening gross retention
- **Security breach drew significant investor concern**, creating a market dislocation

Conversation with Equity Research

- Our conversation with sell side gave us two key insights:
 1. Sell side valuations use a DCF model and/or an EBITDA Multiple
 2. Sell side believes that Microsoft is a key competitor that will put a valuation cap on the company and that the customer composition (>75% SMBs) will drag down the business long term

"You can't find 15-20% growers that are profitable like MIME. [It's] Unfairly dinged." – Jefferies Sell Side Equity Research Associate

Our View

- The poor macro environment is only a **temporary drawback from uncertainty about reopening and vaccine distribution**
- Their industry exposure (retail, transportation, etc.) provides a COVID-recovery tailwind and existing customers have demonstrated stickiness, with >100% NRR.
- We believe the **security breach concerns are overstated** and do not reflect MIME's true first-class product quality
- Sell side valuation methodologies penalize this company because of a shortage of 15-20% positive EBITDA growth companies – not due to underlying fundamentals

Key Takeaway: Market misprices MIME due to a macro concerns, customer concerns, the recent breach, and a lack of comps. We believe that MIME has demonstrated product strength and client retention during COVID with >100% NRR and that core business growth will not slow.

Thesis 1: Market Overreaction to Recent Security Breach

MIME's share price dropped on January 12 due to a security breach, but our diligence shows that MIME's long-term growth trajectory is unlikely to be negatively impacted and thus creates an investment opportunity

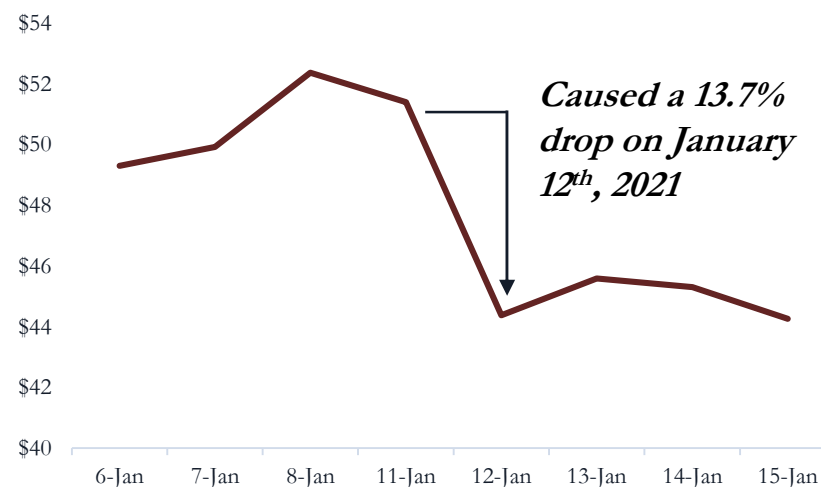
Security Breach Details

- MIME discovered that **one of its security certificates was used by malicious actors**
- The certificate was used to authenticate MIME's Sync/Recover, Continuity Monitor, and Internal Email Protect products to Microsoft 365
- The malicious actor could access MIME customer web traffic through these applications
- **However, only a low single digit number of clients impacted**; MIME immediately issued new certificates, establishing new authentications

Coordinated Attacks by Adversary

- The attack was part of a **large wave of attacks on the cybersecurity industry**
- Investigation discovered that the malicious actor was the **same foreign adversary that breached SolarWinds and several US federal agencies**
- Cause of the attack likely due to potential SAML vulnerability in Microsoft 365 integration software
- CrowdStrike was also targeted but not breached because they did not use Microsoft 365 internally

Market Response to Hack



Our Takeaways

- Series of industry-wide attacks exposed **systemic vulnerabilities** in the Microsoft 365 integrations system, which shifts the burden and fault for the attack away from MIME
- These attacks will spur demand for more email security solutions, which MIME is poised to capitalize on with their best-in-class solution
- MIME's fast response clearly communicated and showed commitment to customer security, which will **further limit long-term damage to reputation**

Thesis 2: Public Sector & International Growth Opportunities

MIME has established a global infrastructure and secure moat, positioning it to best capitalize on opportunities for significant international and public sector expansion that will drive top line revenue growth

Public Sector Expansion

- FedRAMP “ready” status approved in Q3 2020 will lead to **substantial opportunity for large US government contracts**
- Management capitalizing with dedicated FedRAMP data center **ready by end of 2021**
- Previous large contracts (30,000+ seats) with UK government departments show **scale of lucrative opportunities** and ability of management to **close deals in public sector**

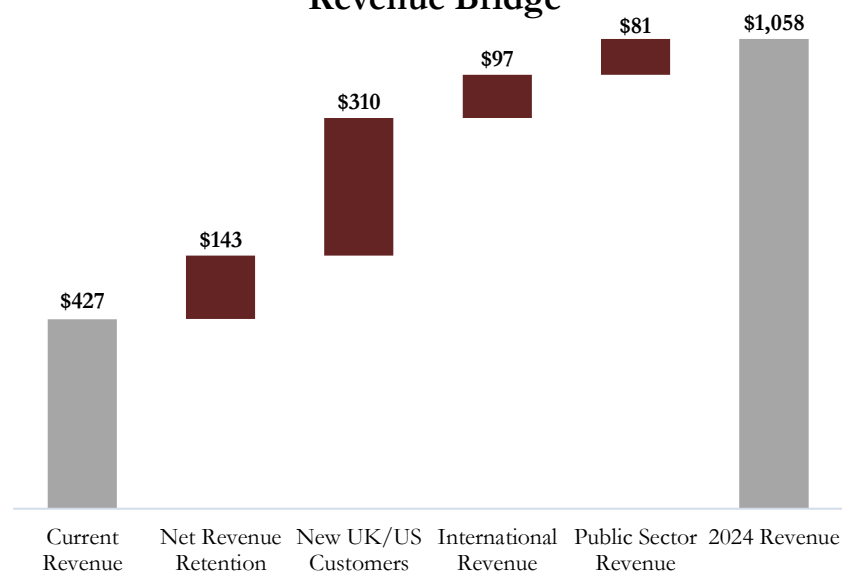
First Mover Advantage

- **Significant moat:** Difficult and tedious process to apply for and receive approval, but MIME is leading candidate for full certification
- FedRAMP targets the 4,900 out of 6,154 U.S. government domains that do not enforce DMARC policy, and as a result are highly vulnerable to email fraud
- \$23.8B global public sector TAM: MIME has most comprehensive **runway for expansion** with footholds across 750 government orgs

International Market Opportunity

- Most revenue from the US (52%) and UK (29%), meaning they currently have **low exposure to other international markets**
- Leveraging existing relations with multinational companies as a starting point for large contracts
- Strong focus on Canada: opened new datacenter in Oct 2020 exclusively for Toronto, Montreal
- All expansion efforts are in early stages, meaning potential growth has not been accounted for by sell side models
- We see this as a **“call option”** with high upside

Revenue Bridge



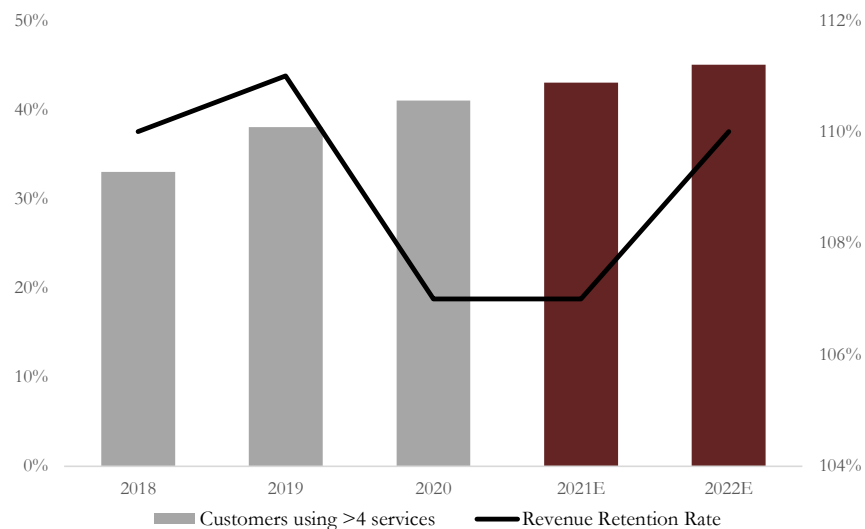
Thesis 3: Upselling Growth Potential & Margin Expansion

MIME is transitioning from an SMB provider to a Fortune 500 provider, increasing their upselling potential of higher margin products to new, larger global customers

Higher Value Customer Base

- Despite higher than usual churn, NRR remained >100%, indicating **strong upselling despite a large SMB customer base** exposed to COVID
- A new class of Zone 3, led by DMARC Analyzer acquisition has translated into 100+ higher margin contracts
- We expect margins to continue improving: 1). New Zone 3, high margin services are seeing increased adoption 2). **Margins from upselling are higher than new customer acquisition**

Upselling Opportunities



Acquisitions & Partnerships

Targeted, strategic acquisitions have successfully grown MIME's product portfolio:

- **Segasec + DMARC Analyzer:** both acquisitions brought offerings to Zone 3
- **MessageControl:** acquisition seeks to placate fears of COVID-induced spikes in phishing
- **Solebit:** acquisition meant to fight malware

Demonstrates successful history of inorganic expansion, and siloed product offerings enables easier integration

Large Customer Transition

- Customer mix is currently 82% SMBs and 18% large businesses (5,000+ employees); MIME has turned focus to larger clients with greater spending power
- They are heavily exposed to industries that might suffer during COVID – **we expect strong rebound in stock price from FY 2021-2022**

“The [DMARC Analyzer and Segasec acquisitions] further expand our product offerings in Zone 3 of our Email Security 3.0 strategy, which is particularly appealing to larger organizations” - Rafe Brown, MIME CFO

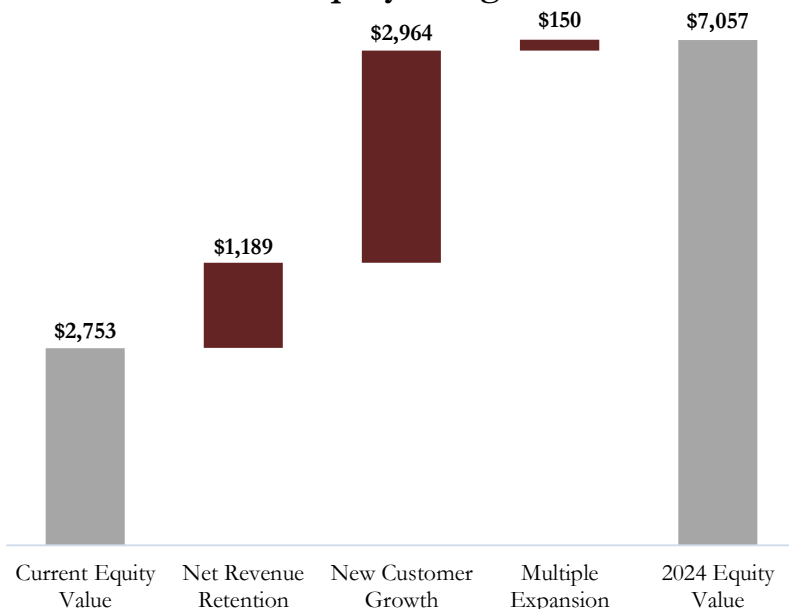
Valuation: High Upside Without the Risk

MIME has the potential to become a \$7B business by 2024, implying at 29.3% IRR – we have confidence in management to utilize their best-in-class support and capitalize on industry trends

Valuation Overview

- Primary model drivers include NRR, customer growth, and multiple expansion
- In line with our thesis, we have conviction in the business to claim upselling post-COVID, attract new businesses (including from the public sector), and enjoy an improved market view
- Through our analysis, we find a **4-year IRR of 29.3%**, well above our expected discount rate

Equity Bridge



Key Assumptions & Risks

Assumption #1: Net Revenue Retention Rate

- Management has made it clear that COVID exuded downward pressure on the NRR
- We expect upselling to begin again in the coming quarters and contribute to our valuation

Assumption #2: New Customer Growth

- Customer growth represents the bulk of our expected outperformance, due to our thesis on public sector expansion and best-in-class asset

Assumption #3: Multiple Expansion

- Expect multiples to rerate as the market better understands that the hack was a one-time event and NRR numbers will rejuvenate

Core Risk to Thesis: while Microsoft is a poor competitor to MIME, the market could irrationally fault MIME for the security breach, thereby causing multiple depression. However, we have confidence that customers still want best-in-class products over end-to-end solutions. We have conviction in the superb management team and believe that incentives are aligned, preserving a margin of safety.