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# EDITED TRANSCRIPT

ZeroFox to Acquire LookingGlass Conference Call

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## CORPORATE PARTICIPANTS

**James C. Foster** *ZeroFox Holdings, Inc. - Chairman & CEO*  
**Timothy S. Bender** *ZeroFox Holdings, Inc. - CFO*  
**Todd Weller** *ZeroFox Holdings, Inc. - VP of Investor Relations*

## CONFERENCE CALL PARTICIPANTS

**Brad Robert Reback** *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*  
**Joseph Anthony Gallo** *Jefferies LLC, Research Division - Equity Associate*  
**Yi Fu Lee** *Cantor Fitzgerald & Co., Research Division - Research Analyst*

## PRESENTATION

### Operator

Thank you for standing by, and welcome to the ZeroFox to acquire LookingGlass conference call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to turn the conference over to [Todd Weller], Vice President of Investor Relations.

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### **Todd Weller** *ZeroFox Holdings, Inc. - VP of Investor Relations*

Thanks, operator. Thank you for joining us on short notice. As you've seen, this morning, we announced our agreement to acquire LookingGlass Cyber Solutions. Joining us today to discuss the transaction are Foster, Chairman and CEO of ZeroFox; and Tim Bender, our Chief Financial Officer.

Please note that we are in a quiet period, and we will not be commenting on the current quarter or future guidance during today's call. We would like to remind you that during the course of this call, management will make forward-looking statements related to benefits from the transaction, including forward-looking statements about expected revenues and accretiveness of the transaction and the ability of ZeroFox to achieve its objectives and plans with the acquisition of LookingGlass.

All statements, other than statements of historical fact, that address activities, events or developments that we expect, believe or anticipate will or may occur in the future, including statements related to benefits from the transaction, are forward-looking statements. While we believe these expectations, assumptions, estimates and beliefs are reasonable, such forward-looking statements are only predictions and are subject to a number of risks and uncertainties, which are beyond our control and which could cause actual results to differ materially from those anticipated by these statements.

These forward-looking statements apply as of today, and you should not rely on them as representing our views in the future. With that, I'll turn the call over to Foster.

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### **James C. Foster** *ZeroFox Holdings, Inc. - Chairman & CEO*

Thanks, Todd, and good morning. Thank you, everybody, for joining us this morning, again, on short notice. We are excited to announce the definitive agreement to acquire LookingGlass Cyber Solutions for approximately \$26 million, primarily in ZeroFox stock, combined with convertible debt and cash, including performance earn-outs. Tim will provide more financial details on the transaction here shortly. I'd like to spend a few minutes talking about why we're excited about this acquisition and the benefits it provides ZeroFox, both strategically and financially.

First, some quick background on LookingGlass. LookingGlass is a leader in external attack surface management and vulnerability intelligence. It's a company we know well and have been partnered with for years. We acquired their cyber threat intelligence business unit, Cyveillance, in the fall of 2020. The Cyveillance acquisition allowed us to accelerate our development of the ZeroFox Intelligence platform pillar. Fast forward to today, it feels a little bit like Déjà vu.

We're excited to announce a definitive agreement to acquire LookingGlass and to join forces with their team to accelerate the development of our new platform innovations. As a leader in external cybersecurity, ZeroFox is focused on exposing, disrupting and responding to threats beyond the endpoint and outside the firewall. Digital transformation is propelling a proliferation of digital assets

and data on external platforms that are outside of the control of the organization and are not protected by traditional security controls and agents.

Adversaries continue to target this external attack surface exposing organizations to more threats and increased risk. And we believe that protecting these digital assets and the external attack surface requires a platform-based approach that combines multiple capabilities into a comprehensive solution via a single pane of glass. This has been and will continue to be the vision driving our ZeroFox External Cybersecurity platform, which fuses together AI-powered analysis, advanced analytics, intelligence, protection and human expertise to solve the entire external cybersecurity challenge.

Today, our platform provides key capabilities, including continuous visibility into the external attack surface, robust threat intelligence, protection with the ability to disrupt active threats and comprehensive response capabilities to assist with investigations, incidents and breaches. Tenuous visibility is the critical first step and the rapid growth of the external attack surface and its dynamic nature leaves organizations with visibility gaps.

In short, you can't protect what you can't see. Historically, our platform has provided visibility into large portions of this external attack surface, including surface web, deep and dark web, domains, social platforms, code sharing sites, mobile app stores and countless of other example types. With LookingGlass, we will gain visibility into all Internet-facing assets and systems. In short, they have the most complete Internet asset and vulnerability data lake we have come across. Visibility into the entire attack surface is critical, and we believe this is the fundamental capability of an external cybersecurity platform.

While we are executing on our organic road map efforts, we identified an opportunity to accelerate these efforts by acquiring LookingGlass. LookingGlass, as I said, is a leader in the external attack surface management space and very large enterprise organizations have standardized upon them to secure their critical Internet infrastructure.

Additionally, the company is also recognized by leading industry analyst firms like Gartner and Forrester. We believe these new innovations will significantly expand the value of our platform, our value that we provide to customers on a daily basis, and it will create additional growth opportunities for the organization.

And as with our prior acquisitions, we will take a deliberate approach to integrating these capabilities into our unified platform to ensure that we deliver comprehensive capabilities and a consistent experience. This is important at ZeroFox. We refer to this as our best of platform approach. This differs from multiple other security companies that take more of a best-of-suite approach where they loosely connect multiple products, which often results in a disjointed user experience and long-term poor customer satisfaction.

From a timing perspective, we will plan to quickly integrate these capabilities over the next several quarters. While the primary focus of this acquisition is to accelerate our vision with the external cybersecurity platform, it also provides us with significant strategic and financial benefits. Specifically, the acquisition will increase the scale of our subscription revenue, it will positively impact our cash flow and profitability and it will strengthen and expand our business opportunities and enterprise relationships.

Overall, as you can tell, I'm very excited about today's news. And with that, I'll turn it over to Tim so he can provide some more details on the transaction. Good morning, Tim, it's all yours.

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**Timothy S. Bender** *ZeroFox Holdings, Inc. - CFO*

Thanks, Foster. As Foster mentioned, we're excited about the acquisition of LookingGlass. I'd like to remind everyone that we are in a quiet period, so we will not be able to comment on the current quarter or future guidance. The proposed acquisition accelerates our external cybersecurity platform and further strengthens our enterprise capabilities and growth opportunities. It also provides us with incremental high-margin subscription revenue and is expected to be accretive to cash flow on an annual basis.

As far as the transaction terms, ZeroFox will acquire LookingGlass for approximately \$26 million, primarily in stock, combined with convertible debt and cash. The transaction is subject to customary purchase price adjustments and performance earnouts and consists of approximately 9.4 million shares, of which 2 million shares are subject to performance earn-outs, 9.5 million in cash and 3.3 million in

convertible debt. The shares will be issued in 3 equal tranches over a 6-, 12- and 18-month period.

Upon closing, ZeroFox will amend its senior loan agreement with Stifel Bank, borrowing an additional \$7.5 million under the facility to finance the transaction and extend the term to July 2025. The acquisition is expected to close within the next 30 days. As far as financial impact, the acquisition is expected to add approximately \$19 million of annual recurring revenue in fiscal year '24 and be accretive to cash flow on an annual basis.

With that, we'd like to take your questions. Operator?

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) The first question comes from Joseph Gallo with Jefferies.

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### Joseph Anthony Gallo *Jefferies LLC, Research Division - Equity Associate*

Congrats on the acquisition. Can you just give a few more characteristics of the financial profile of the company? Is the revenue model, is that SaaS? Maybe just the type of deployment, the number of customers they have and the typical customer profile and if there's any overlap with your current existing customer base?

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### Timothy S. Bender *ZeroFox Holdings, Inc. - CFO*

Yes. Thanks, Joe. This is Tim. Listen, it's very much like the ZeroFox legacy business. It's all subscription revenue, high margin, so it fits in nicely with our subscription business, primarily serving large enterprise quality organizations. We'll come out with additional KPIs on the exact number of customers here shortly after we close.

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### Joseph Anthony Gallo *Jefferies LLC, Research Division - Equity Associate*

Okay. And then maybe, Foster, maybe just a classic build versus -- or not build versus buy but buy versus partner, what does the technical integration give you? Maybe just give a little bit more details on why this was the right deal for ZeroFox?

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### James C. Foster *ZeroFox Holdings, Inc. - Chairman & CEO*

Yes. Look, I think it starts with people, Joe as cliché as it may sound on a Monday morning, it always starts with people. The last 3 acquisitions that we've made have come through partnerships. LookingGlass has been a partner with us for years. We know the team incredibly well. We got very comfortable with what they were building and as part of our partnership strategy. It just looked like it made sense to accelerate both of our endeavors through an acquisition that was primarily in stock.

As I mentioned in some of the prepared notes, this was an area that we were organically building and going towards. And so, we really saw this as a natural way to accelerate our road map as opposed to a launch in brand new.

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### Joseph Anthony Gallo *Jefferies LLC, Research Division - Equity Associate*

Okay. And then maybe just if I can sneak 2 more in. Maybe just talk about the go-to-market and if it's the same or any different than your core ZeroFox? And then Tim, there is a little bit of debt, a little bit of cash in there. Maybe just talk about -- I think you mentioned it's accretive to cash flow, but how we should think about your eventual free cash flow breakeven and the comfortability with your own debt profile and ability to pay off payments.

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### James C. Foster *ZeroFox Holdings, Inc. - Chairman & CEO*

Yes. Thanks, Joe. I'll answer the first, and I'll turn it over to Tim to answer the second. It will follow our traditional go-to-market motion here. I mean, they serve enterprise organizations like ZeroFox. We anticipate this will increase our ASP. And I think the market will welcome this as a part of our single, unified external point of view. Attack surface was something that we've been doing for quite some time, and I think there's still different definitions of what the attack surface capability needs to be. And we believe that this will help accelerate our position in that space.

**Timothy S. Bender *ZeroFox Holdings, Inc. - CFO***

And then just -- from a cash flow and debt standpoint based on your questions, I guess the first thing is, again, I feel the deal -- or the deal will be accretive to cash flow on an annual basis. We're not yet saying, how much that will change our overall cash position for this year or next year, but you can assume that being accretive is going to be positive to the business.

From an overall debt standpoint, I think one of the key elements of the deal is we were able to first move out the maturity date of the Stifel loan. So that gives us a little bit of runway there, and we're comfortable there. And then the piece of -- the second piece of debt, the \$3.3 million is junior debt to Stifel and that moves out in the same time frame. So while we did add some debt, we feel like the cash flow profile of the acquisition is very positive for us.

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**Operator**

(Operator Instructions) Our next question comes from Brad Reback with Stifel.

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**Brad Robert Reback *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst***

Can you guys talk to what the growth rate of the business has been over the last few years?

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**Timothy S. Bender *ZeroFox Holdings, Inc. - CFO***

Brad, it's Tim. We'll come out with those details after close and get more into that as we roll out our guidance here in a couple of weeks.

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**James C. Foster *ZeroFox Holdings, Inc. - Chairman & CEO***

Brad, we will say it has been a growing business. We're excited to release some of the details here after close.

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**Operator**

(Operator Instructions) The next question comes from Yi Fu Lee with Cantor.

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**Yi Fu Lee *Cantor Fitzgerald & Co., Research Division - Research Analyst***

Congrats on the acquisition, gents. And my first question is on the integration time line. Looking at the history, ZeroFox acquisition of IDX, usually these are best-of-breed DevOps approach in software development. And you've mentioned it -- you touched upon it briefly in terms of the software development. If you, like Tim or Foster, you could touch upon like the integration time line as well as how is this going to be more of a SaaS-like approach, right, in terms of the software development on the integration front?

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**James C. Foster *ZeroFox Holdings, Inc. - Chairman & CEO***

Sure, let me tackle that one. LookingGlass has a lot of shared similarities as ZeroFox, which is something that we look for when we look for acquisitions. Have you built a modular approach? Are you leveraging an API-based back-end system, is your data lake set up correctly, does it have the right type of data architecture layers that make it easy to integrate. LookingGlass will be our fourth acquisition in 4 years. We do have an internal playbook for how we integrate organizations, integrate technology and integrate go-to-market at this juncture.

And we feel that the speed in which we do this becomes a core competency and differentiator for the organization as time passes and the playbook continues to mature. We expect integration to start as soon as the deal closes in full. But that doesn't mean that we haven't been preparing for it for a little while now, and we'll continue to prepare for it throughout the launch and throughout closing. It's also a nice lead time here given that one of the major security conferences in the industry is next week at RSA, and it gives us some new things to talk about there as well.

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**Yi Fu Lee *Cantor Fitzgerald & Co., Research Division - Research Analyst***

Makes sense. And then maybe expand upon the -- you mentioned adding LookingGlass increases the data lake. Maybe expand a little bit more of like how this adding LookingGlass adds to the competitive moat or gets competitive because of this added data source?

**James C. Foster ZeroFox Holdings, Inc. - Chairman & CEO**

Yes. Happy to. So LookingGlass is very good at what they do. They provide, what I call, Internet scale vulnerability and attack surface intelligence and protection to their customers today on just about every single IP address in the world. And that is something they've been doing for a long time, well over 10 years.

And so they've got, what I'd call, CTI or IP level data on just about anything that you want to know about, and they've got a really nice historically complete time line and relational database behind the scenes that can draw and link data points that would be important to not only their customers, but certainly our customers on this type of intelligence.

This is an area that we believe will give us not only what I call it, short-term value incrementally by having this type of data in ZeroFox, but also when you pick up any kind of intelligence asset through a strategic partnership or acquisition, you get the historical context -- the historical elements with that given when they've started.

And so even if we were to finish and organically launch this ourselves, there are 10 years of data plus couldn't have been replicated. And so we really like the asset that we're picking up, and we think that the combined team will be stronger.

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**Yi Fu Lee Cantor Fitzgerald & Co., Research Division - Research Analyst**

Got it. Awesome. My last question is more stepping back more in general. In terms of like the headline top secret government leak last week. I was wondering like can you give us a little color, right? Had like these government agencies enlisted ZeroFox in first place, right? Could the situation have been minimized or prevented instead of the leak to like video gaming website? Just have us like think about like the big picture overall, that would be great.

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**James C. Foster ZeroFox Holdings, Inc. - Chairman & CEO**

I think the challenge in front of our U.S. Federal Government is probably at a similar scale of some of the other larger governments of the world. And I think the challenge they have is always complex. It's hard to put yourself in the seat of any of your customers or partners.

I do think that the ZeroFox disruption capability is the kind of capability that helps out in those situations where you've got sensitive information that's been leaked around the world, you need to be able to constantly and quickly identify where it's been leaked, who leaked it and then clean it up as fast as possible.

ZeroFox is best in class at this. It's 1 of our 4 strategic pillars today. It's called disruption, where we help organizations identify exactly what happened. And so, look, I would say, in general, anybody that has this problem of leaked information needs to pick up the phone and call us because we're best in the world of what we do. So we're happy to help.

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**Yi Fu Lee Cantor Fitzgerald & Co., Research Division - Research Analyst**

Congrats on the transaction.

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**Operator**

I show no further questions at this time. I would now like to turn the conference back to Foster for closing remarks.

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**James C. Foster ZeroFox Holdings, Inc. - Chairman & CEO**

Thank you. Well, again, I want to thank everyone for joining us on the call this morning with short notice. As you can tell, we are incredibly excited about this acquisition of LookingGlass and the multiple benefits we think it will provide us. We look forward to providing you with additional updates on our next quarterly call and may be seeing many of you out at next week's RSA conference. Thank you again. Have a great week.

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**Operator**

This concludes today's conference call. Thank you for participating. You may now disconnect.

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