

WatchGuard's acquisition of Panda Security will make it a stronger competitor in the SMB security market

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Igor Babić

WatchGuard announced its intent to acquire [Panda Security](#) on 9 March 2020. WatchGuard is a privately held network security vendor headquartered in Seattle, USA. This acquisition will enable it to expand into the endpoint security market and grow its geographical footprint, and will provide it with significantly more scale.

WatchGuard is owned by Francisco Partners, a private equity firm that also has a stake in SonicWall. WatchGuard was founded in 1996, and has over 600 employees. It is a well-established player in the firewall and unified threat management (UTM) solutions market, and has over 80 000 customers worldwide (most of which are small and medium-sized businesses (SMBs)).

Panda Security is an endpoint security specialist. It also has over 600 employees, is privately held, has a customer base consisting primarily of SMBs and has been in business since the 1990s. Unlike WatchGuard, it is headquartered in Europe (specifically Spain), and it derives roughly 80% of its revenue from this continent (only around 10% of its revenue comes from North America, which is WatchGuard's largest market).

A key finding from [Analysys Mason's 2019 business survey](#) is that SMBs are looking to simplify the integration and management of their cyber-security solutions. The acquisition of Panda Security will enable WatchGuard to expand its endpoint security capabilities (which are currently limited to DNS-level protection) and create an integrated network and endpoint security offering for SMBs. This will also be welcomed by MSPs that are typically trying to consolidate their stack of partners, thereby reducing the need for additional employee training. The merger should enable WatchGuard to compete more effectively with the likes of Barracuda Networks, Cisco and Sophos, all of which offer endpoint and/or email security for SMBs in addition to network security solutions.

The financial details of this deal, which is expected to close by the end of 2Q 2020, have not been disclosed.

This is by far WatchGuard's largest acquisition

WatchGuard has made three acquisitions prior to this one in the last decade.

- It bought the HawkEye G threat detection and response technology from Hexis Cyber Solutions in June 2016. This was WatchGuard's first step towards expanding into the endpoint security market. 40 of Hexis's employees joined WatchGuard as part of this deal.
- WatchGuard acquired Datablink in August 2017 to expand its authentication capabilities. It launched AuthPoint (a multi-factor authentication solution) on the back of this acquisition. Datablink's 70 employees joined WatchGuard following the takeover.

- It bought Percipient Networks, a provider of DNS-layer protection against phishing and malware, in January 2018. Percipient Networks was founded in 2014, and its acquisition added 10 people to WatchGuard's headcount.

All of these companies were much smaller than Panda Security. These three deals brought a total of 120 new employees to WatchGuard, while the acquisition of Panda Security will add around five times as many (and will nearly double WatchGuard's workforce). In addition, all three companies were based in the USA and had a limited presence outside of North America. Conversely, Panda Security has a strong presence in multiple countries (in Europe), but has not been as successful as some of its direct competitors in raising brand awareness in the USA.

Integrating an entity with a similar headcount to its own (that is based on another continent) will present a different kind of challenge for WatchGuard than its other recent acquisitions. The reasons behind these acquisitions were related to a single technology/product, while those for the takeover of Panda Security are (much) more fundamental. WatchGuard plans to make Panda Security's endpoint protection, detection and response, data compliance and encryption and email protection solutions available to its customer base through its channel partner network in the short term. It plans to fully integrate these solutions and technologies into its own offerings and discontinue the Panda Security brand in the long term (perhaps because it is a brand associated with the consumer market as well, unlike WatchGuard).

WatchGuard's and Panda Security's product portfolios are highly complementary within the SMB market

SMBs are facing an increasingly sophisticated threat landscape, a shortage of security professionals and budgetary constraints, and as a result, their appetite for security solution bundles that address multiple threat areas is growing. The proposed merger will allow WatchGuard to complement its well-established range of network security products for the SMB market with Panda Security's endpoint-security-related technology, and offer SMBs the opportunity to purchase a solution offering network, endpoint and email protection from a single vendor (and potentially at a lower cost than if they were to procure these from multiple vendors). In addition, it should enable WatchGuard to discontinue its OEM partnerships with endpoint security specialists Bitdefender and Cylance, and instead use anti-malware software that is developed in-house.

The combined business should also benefit from synergies related to channel partner networks and geographical presence (WatchGuard currently has around 10 000 channel partners and Panda Security distributes its solutions in over 180 countries), as well as from economies of scale in marketing and R&D activities.

The deal will not only strengthen WatchGuard's position in the SMB market, but it will also enable it to become a more-relevant vendor for large businesses' cyber-security requirements. Both WatchGuard and Panda Security have growing ambitions in this segment of the market, and the addition of endpoint detection and response (EDR) and managed detection and response (MDR) technology to WatchGuard's portfolio will make it a relevant player in the (still) emerging, large-enterprise-focused, threat detection and response solutions market.

This deal is part of a wider shift towards a less-siloed cyber-security solutions market

For WatchGuard, this acquisition is as much about staying abreast of competition as it is about trying to differentiate from it. We have recently seen several of WatchGuard's and Panda Security's competitors expand their competencies into new areas (the prime example being Sophos, which has done so through the acquisitions

of Rook Security, DarkBytes, Avid Secure and Invicex). We expect to see further consolidation in the cybersecurity solutions market in the future, as well as a continuation of the shift towards 'platformised' solutions, which unify protection against different categories of threats.