



OurCrowd Startup Investing Guide:
Cybersecurity



About OurCrowd:

OurCrowd is the leading online venture capital platform for accredited investors who wish to invest in Israeli and global startup companies. Managed by a team of well-known investment professionals and led by serial entrepreneur Jon Medved, OurCrowd selects opportunities, invests its own capital and brings these startups to its accredited membership. Members can then choose the deals that they want to invest in, allowing them to build robust, diverse portfolios of startup companies. OurCrowd investors must meet stringent accreditation criteria and invest a minimum of \$10,000 per deal. OurCrowd provides post-investment support to its portfolio companies, assigning industry experts as mentors and taking board seats. OurCrowd has invested over \$100 million in equity crowdfunding for more than 60 portfolio companies which include leading companies, such as: BillGuard, Consumer Physics (SCiO), BioCatch, Abe's Market and ReWalk (RWLK), OurCrowd's first portfolio company to complete a successful IPO on the NASDAQ.

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INTRODUCTION

It seems every week we're haunted by news of a serious hacking incident at a major bank or retailer: In 2014 alone, top breaches included household brand names like Sony, Target, Google, Home Depot, eBay and JP Morgan Chase.

The case for securing data has never been stronger as investing firms are pouring billions of dollars of capital into the cybersecurity industry. Merger and acquisition activity in this sector has picked up considerably. This dynamic — a major market need together with lots of opportunities for startups — has compelled early-stage investors and angels to get serious about cybersecurity. We at OurCrowd, along with our investors, have our bets on a variety of different solutions in the cybersecurity field, and compiled the following investor guide to navigating this rapidly growing market.

The need for enterprises, governments and consumers to protect themselves from cyber threats has further spurred a buying spree of cybersecurity solutions, which by nature are constantly evolving in order to keep pace with hackers. Cybersecurity is an already large industry poised for enormous growth over the next several years; by some estimates it will reach upwards of \$150 billion by 2019.

At the core of the economic growth lies the technological innovation being propelled forward by entrepreneurs and early-stage investors. Their focus is on staying ahead of cyber criminals and iterating on security technologies while the world experiences rapid adoption of cloud-based services, wireless communication and increased strictures in government and corporate mandates.



A special thanks goes to OurCrowd Venture Partner and Cybersecurity Advisor, Ron Moritz. Ron brings over 25 years of broad operational, strategy and P&L experience from premier Fortune 500 technology companies including Microsoft, CA Technologies, and Symantec, where he was a member of each company's distinguished corporate or divisional leadership teams and served in a variety of roles including General Manager, SVP, and CTO.



MARKET OVERVIEW

What is cybersecurity?

The need to keep pace with the capabilities and threats posed by groups bent on stealing or destroying valuable data has become painfully clear. Hackers, with tools and skills once possessed only by government entities, are engaging in electronic warfare 24/7 and enterprises of all sizes need to protect themselves. Cybersecurity's roots are in protecting what industry analysts call CIA (Confidentiality, Integrity, and Availability of Information). This includes keeping our digital footprints private, making sure they're accurate, and ensuring they're accessible is cyber's mandate.

How big is the cybersecurity market?

The total 2014 spend on cybersecurity of \$71.1B, growing at 8% annually. The market is expected to grow to nearly \$100 billion in world-wide spending on security by 2017. What's interesting is that there is no dominant player in the space — no one company that exerts strong influence on the industry's direction. This can provide ample opportunity for new leaders to emerge and for existing players to grow via acquisition of new players.

The rapid growth of worldwide cybersecurity spending



Source: Wall Street Journal / Gartner

The staggering numbers

It's estimated that hackers steal around \$250 billion per year in intellectual property. NSA Director Gen. Keith Alexander calls these attacks "the greatest wealth transfer in history."

- 2012** Losses from account takeover fraud were nearly \$5 billion despite over \$2 billion spent on fraud detection solutions.
- 2013** Senate Commerce Committee Chairman Jay Rockefeller said in a letter to the Chairman of the Securities and Exchange Commission: "Investors deserve to know whether companies are effectively addressing their cybersecurity risks – just as investors should know whether companies are managing their financial and operational risks. Formal guidance from the SEC on this issue will be a strong signal to the market that companies need to take their cybersecurity efforts seriously."
- 2014** According to a Fed/Pew survey, 49% of people selected "I'm concerned about the security of mobile banking" as one of the main reasons for not using mobile banking.
- 2015** President Obama signed an executive order which urges companies to share cybersecurity-threat information with one another and the federal government.

Two main drivers of cybersecurity growth

1. Governments and corporations are under attack:

High profile hacks in 2014 included household brand names like Home Depot, Target, JP Morgan, and Sony. Everyone is not only snooping on everyone else but criminal elements are actively engaged in trying to access, steal, and sometimes even ransom all our sensitive data.

2. Direct impact on executive officer careers

Says Moritz, OurCrowd's Cybersecurity Advisor, "There's a convergence of risk following Target, Niemen Marcus, and other well-publicized breaches, making the impact broad with resonating shockwaves" and also pummeling the career trajectory of senior executives in these companies. They not only have enterprises to protect but their own reputations. That helps open up IT budgets to spend on protecting defenses.

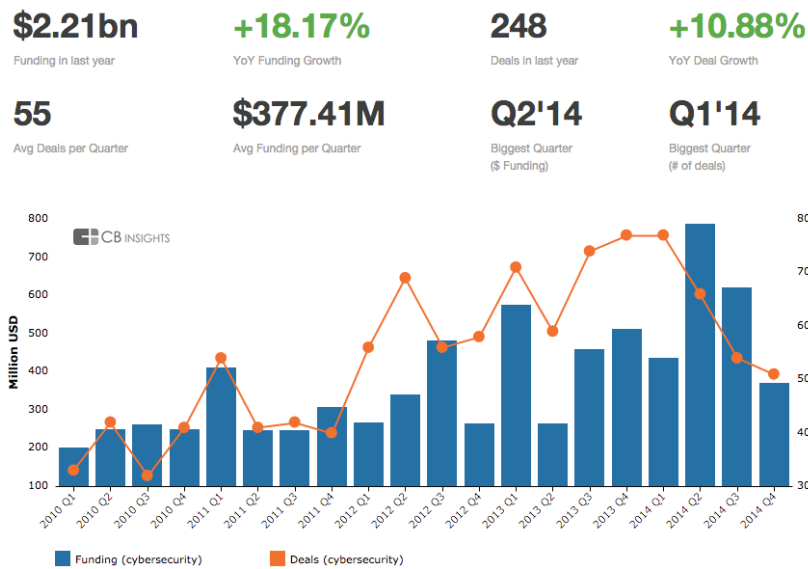
There has been a lot of cybersecurity activity over the past couple of years. Interestingly, while there are some major companies competing in the space, no single company has emerged as an overall market leader. This environment encourages a certain amount of consolidation, as market participants jockey for position, leveraging acquisitions to expand laterally.

INVESTMENT LANDSCAPE

Who are the most active early-stage investors in cybersecurity?

The roster of the most active participants in the cybersecurity market reads like a Who's Who list of investors. Andreessen Horowitz tops the list as the most active since 2010. They're followed by SV Angel, Google Ventures, and Accel Partners.

2014 was a banner year for cybersecurity investments: \$2.21 billion in investments went into the sector over 248 deals



Source: CB Insights

Most active early-stage cybersecurity investors: Q1'10 - Q1'14

Rank	Investor	Rank	Investor
1	Andreessen Horowitz	10	Sequoia Capital
2	SV Angel	10	Norwest Venture Partners
2	Google Ventures	10	Khosla Ventures
2	Accel Partners	10	Alsop-Louie Partners
2	Bessemer Venture Partners	10	First Round Capital
6	Greylock Partners	10	US Venture Partners
6	Lightspeed Venture Partners	10	IA Ventures
6	Kleiner Perkins Caufield & Byers	18	True Ventures
6	Founder Collective	18	Runa Capital
10	Charles River Ventures	18	Webb Investment Network

Source: CB Insights

Private equity

The excitement around cybersecurity deals has not been lost on private equity firms, which typically invest in later stage companies. Insight Venture Partners led a whopping \$200 million investment in AirWatch in 2013. Jeff Horing, who heads IVP, said he believes that AirWatch is leader in a 3-horse race to win the mobile-device management (MDM) market. (The other 2 horses in the MDM race, according to Horing, are MobileIron and Good Technology). Looks like Horing was on to something — VMWare acquired AirWatch for \$1.5 billion in 2014.

All this has not been lost on institutional investors who are investing heavily in the cybersecurity sector.



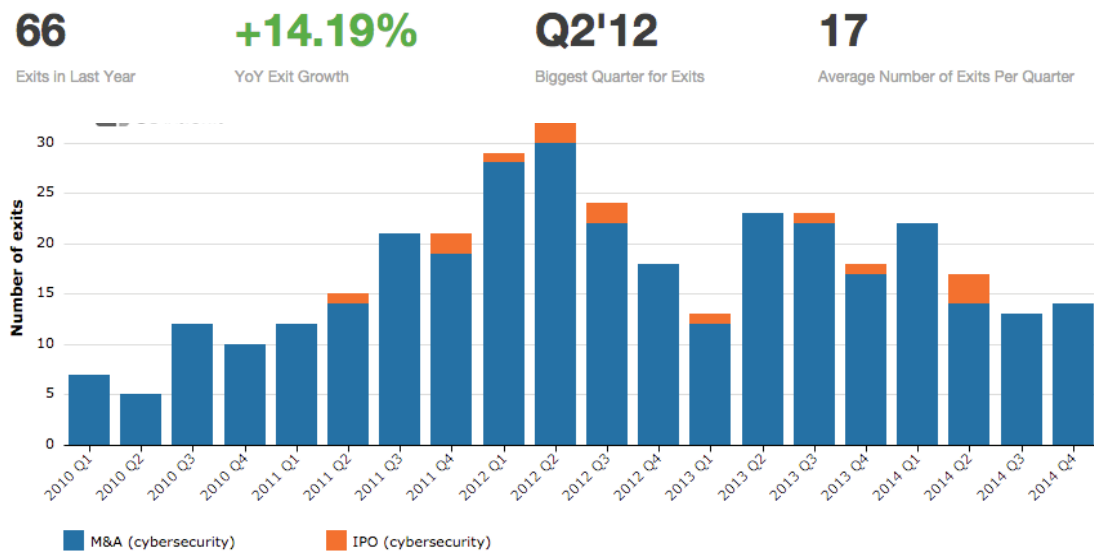
Jeff Horing
Managing Director at
Insight Venture Partners

EXIT ACTIVITY

Exits: How many cybersecurity companies are getting bought or going public?

The other side of the investment coin — exits — is also strong. There were 66 exits during 2014.

The average number of cybersecurity exits per quarter is 17, exhibiting 14% year over year growth



Source: CB Insights

Merger and acquisition activity

The most active acquirers are all the usual suspects: Google, McAfee, Symantec and Cisco Systems top the list of the most active purchasers of cybersecurity firms over the past five years.

For example, Cisco (NASDAQ: CSCO) has traditionally been a serial acquirer and has purchased Amortize Technologies, Blue Coat, and Sourcefire (\$2.78 billion) since 2013. IBM (NYSE: IBM) acquired Trusteer, a company that provides advanced fraud protection against phishing or malware-driven fraud, for \$800 million during September 2013. Fireeye, a publicly traded cyber company that provides automated threat forensics, purchased Mendiand in a stock and cash deal in excess of \$1 billion at the year-end of 2013.

OurCrowd cybersecurity expert Ron Moritz notes that the average enterprise value/revenue multiple that companies in this space get acquired for is 10X.

IPOs

In addition to M&A activity, the public equity markets have shown an ongoing interest in cybersecurity initial public offerings (IPOs). The following companies have all gone public, raising hundreds of millions of dollars in equity and creating billions of dollars in new market capitalization.

The following notable companies have all conducted IPOs over the past several years:

Company	Symbol	Year founded	Year IPO	Amount Raised at IPO	Market Value Q12015
CyberArk	NASDAQ: CYBR	1999	2014	\$93M	\$1.81B
Varonis	NASDAQ: VRNS	2005	2014	\$106M	\$0.76B
Barracuda Networks Inc.	NYSE: CUDA	2003	2013	\$75M	\$2.00B
FireEye Inc.	NASDAQ: FEYE	2004	2013	\$304M	\$6.66B
Qualys	NASDAQ: QLYS	1999	2012	\$91M	\$1.55B
Palo Alto Networks Inc.	NYSE: PANW	2005	2012	\$260M	\$11.46B
Imperva Inc.	NYSE: IMPV	2002	2011	\$86M	\$1.24B
Fortinet	NASDAQ: FTNT	2000	2009	\$156M	\$5.56B

Source: OurCrowd

OURCROWD'S PORTFOLIO

OurCrowd and its global investor community have been increasingly active in the cybersecurity field. Israel has become a hotbed for innovation in the sector, so having boots on the ground has been instrumental in securing opportunities.

Here's a snapshot of the OurCrowd cybersecurity portfolio:

BIOCATCH

BioCatch has developed a novel form of authentication used by online businesses to continuously guarantee users are who they say they are by analyzing behavioral and cognitive response patterns. The company refers to its unique, patent-pending approach as Proactive Cognitive Profiling. Whenever a user interacts with a client's online application, BioCatch analyzes up to 350 cognitive-behavioral usage patterns for that user, and utilizes machine learning algorithms to generate a unique user profile.



Nativeflow has developed a security solution for mobile devices that addresses the exploding Bring Your Own Device (BYOD) trend in corporate enterprises. Nativeflow provides a secure solution that prevents both the intentional and unintentional leakage of a company's sensitive information. It maintains complete security and regulatory compliance, while allowing employees to continue using their own devices without limiting the applications they can use.



Backed by former Google CEO, Eric Schmidt, Peter Thiel (Paypal, Facebook, Palantir) and Khosla Venture, BillGuard is a mobile app that makes catching fraud and erroneous fees on a credit card easy and fast.



Fireblade addresses the need to protect websites from the ever-increasing threat from sophisticated cybersecurity attacks. Fireblade's technology harnesses the power of cloud computing to bring together a unique blend of behavioral analysis, anomaly detection and global reputation, empowering ecommerce businesses to keep their private information safe from theft, sabotage and corporate espionage.

COVERTIX

Covertix's patented enterprise file security software protects confidential documents and sensitive data, automatically and continuously, traveling with the file inside and outside the organization. The company's SmartCipher solutions provide noninvasive file control and protection while allowing organizations to use their preferred collaboration platforms, cloud storage and business processes.