



中国互联网安全大会



360互联网安全中心

**ISC**  
**2015**

**数据驱动安全**

**2015** 中国互联网安全大会  
China Internet Security Conference

Security  
Innovation &  
Startup





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How to get VC  
funding for  
security projects



# EXPERIENCES



*Entrepreneur*  
*2002-2010*



*Investor*  
*2011-2015*



Identity Security  
Management (SSO)

CYLANCE  
AI of AV

digital shadows  
Threat Intelligence

CounterTack  
Endpoint Detection & Response

*China*  
*Started 1997*

PeopleSoft



## ENTREPRENEUR TURNED INVESTOR



### VENTURE FIRM FOCUSED SOLELY ON SECURITY

- IT Security is \$30+ billion existing spend with the largest segments growing over 10%
- Undergoing major dislocations, rife with innovation opportunities
- Proven investment returns in space from current cycle in “Enterprise Infrastructure”
- Highly specialized area with unique domain expertise required



### \$100M FUND IS RIGHT SIZED FOR PREMIUM IRR%

- Big enough to invest in great companies and teams
- “Smaller” venture fund enhances potential for returns
- \$75m primary focus on Series A & B venture capital
- \$25m growth alliance with KKR
- Global opportunities underserved currently - great companies exist outside SV

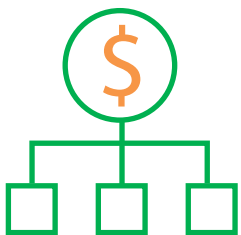


### FIRM FORMED BY SECURITY INSIDERS

- Company operating experience: ~20 year entrepreneur in broad functional roles
- Venture/PE Experience: raised capital from 10+ firms, co-investor with 10+ firms
- Team - founders known each other 10 yrs. from 3 co-investments
- Founders have access to high quality deals

## IN ADDITION TO NORMAL VENTURE INVESTMENT SUCCESS FACTORS OF

- Large potential markets
- Great founders & teams
- Disruptive technology
- Great products
- Changing industry structure
- Attractive investment terms



## SECURITY INVESTING SUCCESS ALSO DEMANDS

- Deep knowledge of security IP
- Access to limited pool of technical talent
- Access to influential white-hat thought leaders
- Relationships with security co-investors
- Grasp of government alliances - geopolitics
- Insight into global import/export and standards
- Knowledge of prior security architectures
- Insight into privacy and law enforcement
- Understanding software development & licensing
- Knowledge of open source & standards
- Relationships with big security companies

**“Any sufficiently  
advanced  
technology is  
indistinguishable  
from magic.”**

Arthur C. Clarke





# INVESTMENT CRITERIA



## ***Security prominent part of company***

- Over 200 plans in months
- Sourced from networks of trusted contacts and referrals
- Security industry reputation of CEO/founding team
- Strong management team aware of own strengths/weaknesses
- Rising management talent, the next generation founders
  - PGP, Foundstone



## ***Financial terms and structure***

- Early venture capital round
- Series A & B preferred stages
- \$1m-\$5m fund investment in \$1m-\$10m round size
- Co-investors preferred
- Reserve \$5m-\$8m of fund for total company investment
- Preferred security with liquidation preference
- Fair valuation and terms



## ***Value creation opportunities exist***

- Coaching role to CEOs - having walked in their shoes
- Add business operational value early from experiences
- Board members
- Venture relationships
- Partner introductions
- Customer introductions
- Executive teams and talent
- Capital markets & services introductions

# 1011 VALUE ADD +

## *Operating experience counsel CEO and team*



- Advise CEOs from real experience
- Stage appropriate scaling investments – global growth
- Employee and team sourcing from deep networks
- Organization chart tradeoffs PM/PMO, CTO/VPE, VPS/BD
- Product roadmap and key customer tensions
- Board meeting effectiveness

## *Strategic partnerships and venture community*



- Investor introductions – venture, strategic, LPs
- Business development – value creation role
- Commercial deals expertise – multi-party business models
- Industry executives network – CEOs, CTOs, CFOs, Co Dev
- Service provider rolodex for security issues
- Board member sourcing

## *M&A and IPO experiences*



- Advisory role on M&A process from expertise in capital markets, company and investor side
- Private capital raising and structure expertise
- Public markets expertise – IPO and secondary, global options for companies
- Network of leaders in relevant roles at leading firms



# 1011 INVESTMENT THEMES



## Mobile first users and security enabled products and services

- Mobile benefits unstoppable - how will security requirements need to be adapted?
- Location based ecosystem, anonymous and ephemeral use cases take center stage
- The devices are the main customer interaction channel, mobile is the internet
- Prospects have multiple devices and have simultaneous interactions with brands across many channels
- Melding of physical and cyber security



## Replacement of obsolete and ineffective core security technologies

- Signature based security technologies (AV part 2 - see IDC STAP)
- Secure communications (secure communications)
- Passwords, authentication, identity, entitlements, digital claims, wallets, loyalty
- Financial technologies, credit cards/payments, virtual currencies - bitcoin ecosystem



## The new enterprise > compliance and risk in the cloud and virtual worlds

- Pull of cloud, push of virtualization and anchoring of legacy architectures
- Migratory technologies, products and services that aid in transition from old to new architectures
- Enterprise data protection and control
- Virtualization > evolution of enterprise & data center security



## Internet of Things

- Digital home and internet of things (auto, appliance, controllers, electronics, gaming)
- Embedded security, industrial control systems, sensors, compliance
- Privacy control, discovery, data, analytics



## Special Situations

- Vertical industry security plays (healthcare, energy, government)
- European based security vendors (Germany, CE Europe, UK)
- Governments and security > compliance, regulations, certifications, trust

# SECURITY MARKET VIEW

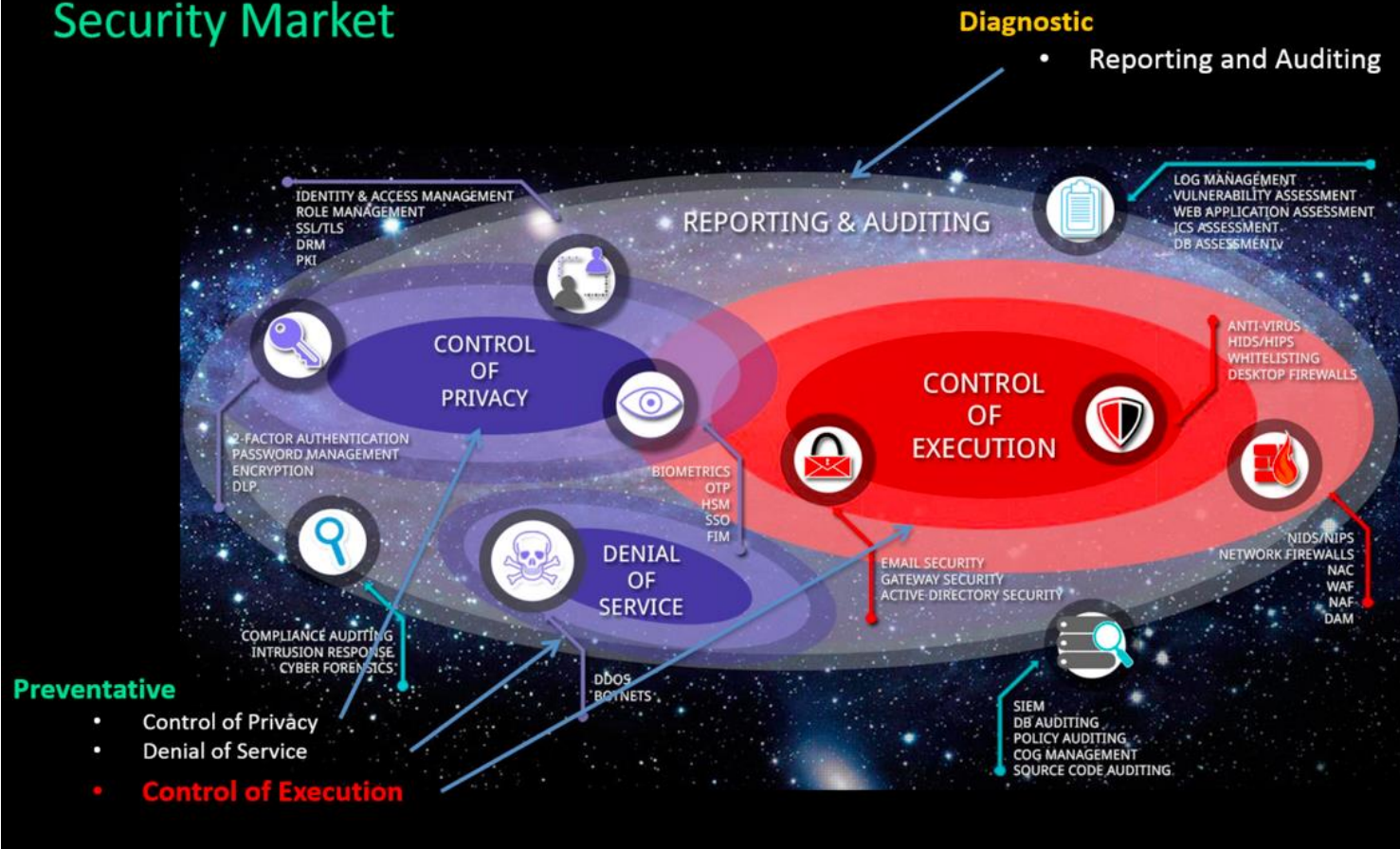


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## Security Market





# BOTTOMS UP DEAL FLOW



We have observed groupings company formation in several sectors:

- Multiple cloud policy enforcement - governance, compliance, security
- Big Data meets security = SIEM+LOG 3.0 and Security Analytics,
- Next generation AV
- Threat intelligence and insights
- Endpoint detection and response (EDR)
- Israeli security start ups (8200 unit spinouts)
- MSSP players - cloud as delivery model for existing network security stack
- Secure communications, asynchronous and synchronous
- Cyber-risk scoring & management - risk, insurance, suppliers
- IoT security
- Elite skills services for hire - hacking teams, bug bounties, assessments
- Mobile security

# Comic strip Dilbert on Startups





# HOW TO GET FUNDING: JOCKEYS, HORSES AND RACETRACKS

Jockey = **Team**

Horse = **Product**

Track = **Business**





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"How to get VC Funding for your  
Security idea."



# STAGE / VALUATION NOTES



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- Early stage / seed / accelerator projects - while disrupting many segments of VC have made only modest inroads into cybersecurity funding
  - 1011 will incubate 1 project / year starting in 2016 - blockchain as business trust tool candidate
  - Person driven fit with segment investment thesis
- Series A Valuations in general are rich, but selectively workable
  - High versus historic standards, but returns still work for successful companies
  - Seed/convertible note caps hitting market, up from convertible price if business working
- Valuation expectations in few segments are getting high / borderline “pencils down”
  - Late stage growth for Silicon Valley companies
  - Israeli based Series B, C rounds getting very pricey
  - Star based CEO / CTO founders at all time high valuation levels
  - Billion dollar funds brands impacting valuations as well - AH effect / effectively insider rounds
- Geographical strategy and reach outside Valley of 1011 - very beneficial
  - Europe, Rest of US - good companies exists with less VC and valuation competition

数据驱动安全

- ~~Corporate~~ venture teams very active in security (VMWare, HP, EMC, Siemens)