



Kingdom of the Netherlands

# State of the State in Cybersecurity VC

April 2023

Ernie Bio

Managing Director, Forgepoint Capital

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Managing Director, Forgepoint Capital



## Professional Background

23 years of professional experience across the military, U.S. government, and the private sector

- **U.S. Air Force**, Fighter Pilot, Combat Veteran, Commander
- **U.S. Cyber Command**, Director Reporting to 4-star Admiral
- **Defense Innovation Unit**, Chief Operating Officer
- **Tech Startup**, Operations & Finance Director
- **Deloitte Consulting**, Strategy and Operation Consultant

## Educational Background

- **Loyola University**, BA
- **NYU Stern School of Business**, MBA

## Forgepoint Investments

### Joined Forgepoint Capital in 2018

- Forgepoint Lead
  - 2018: Bishop Fox, Series A (observer)
  - 2019: Now Secure, Series B (observer)
  - 2019: Strata Identity, Seed
  - 2020: Huntress, Series A (director, deal lead)
  - 2021: 1Kosmos, Series A (observer)
  - 2022: KSOC, SAFE (observer)
- Forgepoint Syndicate
  - 2021: Interos, Convertible Note
  - 2022: Instabug, Series B



Building an Early-Stage Venture Capital Investment Institutional Platform

<b>2015</b> Founded	<b>2</b> Funds	<b>\$1B+</b> AUM
<b>46</b> Investments	<b>25</b> Team Size	<b>12</b> Investors
<b>35</b> Active Investments	<b>80+</b> Advisory Council	<b>\$5-50M</b> Investment per Company

**Cybersecurity & Infrastructure Software**  
Series A/B and Select Growth (First Institutional Investor)



2022 was quite the year, challenging any notion of "business as usual." Through it all, we're grateful for so many milestones, among them:

**\$1B+**  
in AUM

**5 M&A + 1 IPO**  
The only security IPO of the year!

**~\$900M**  
Raised by Forgepoint Companies

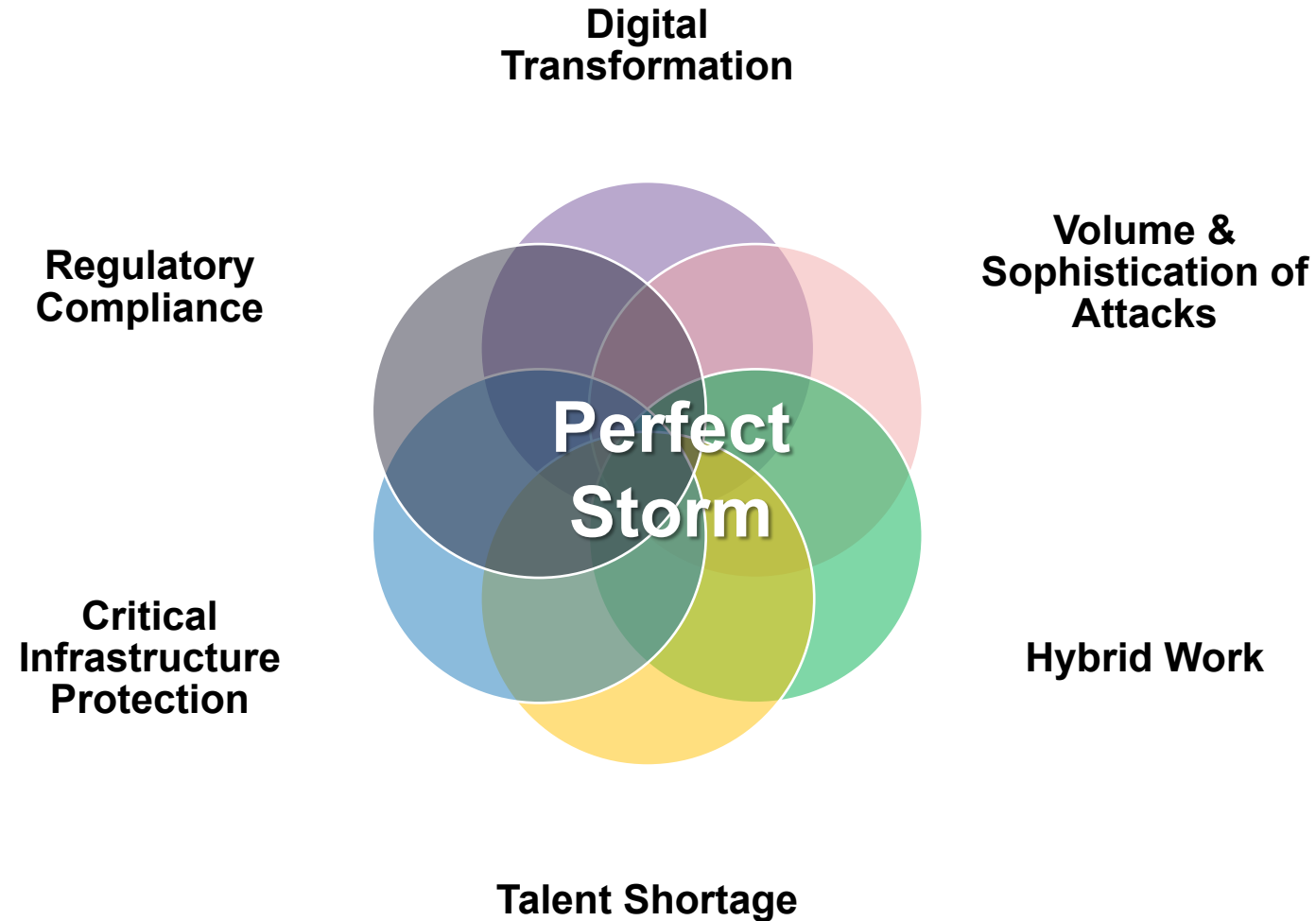
**35**  
Active Companies

**10**  
New Companies

 **Santander**  
Our Alliance to Advance Cyber  
Innovation Globally

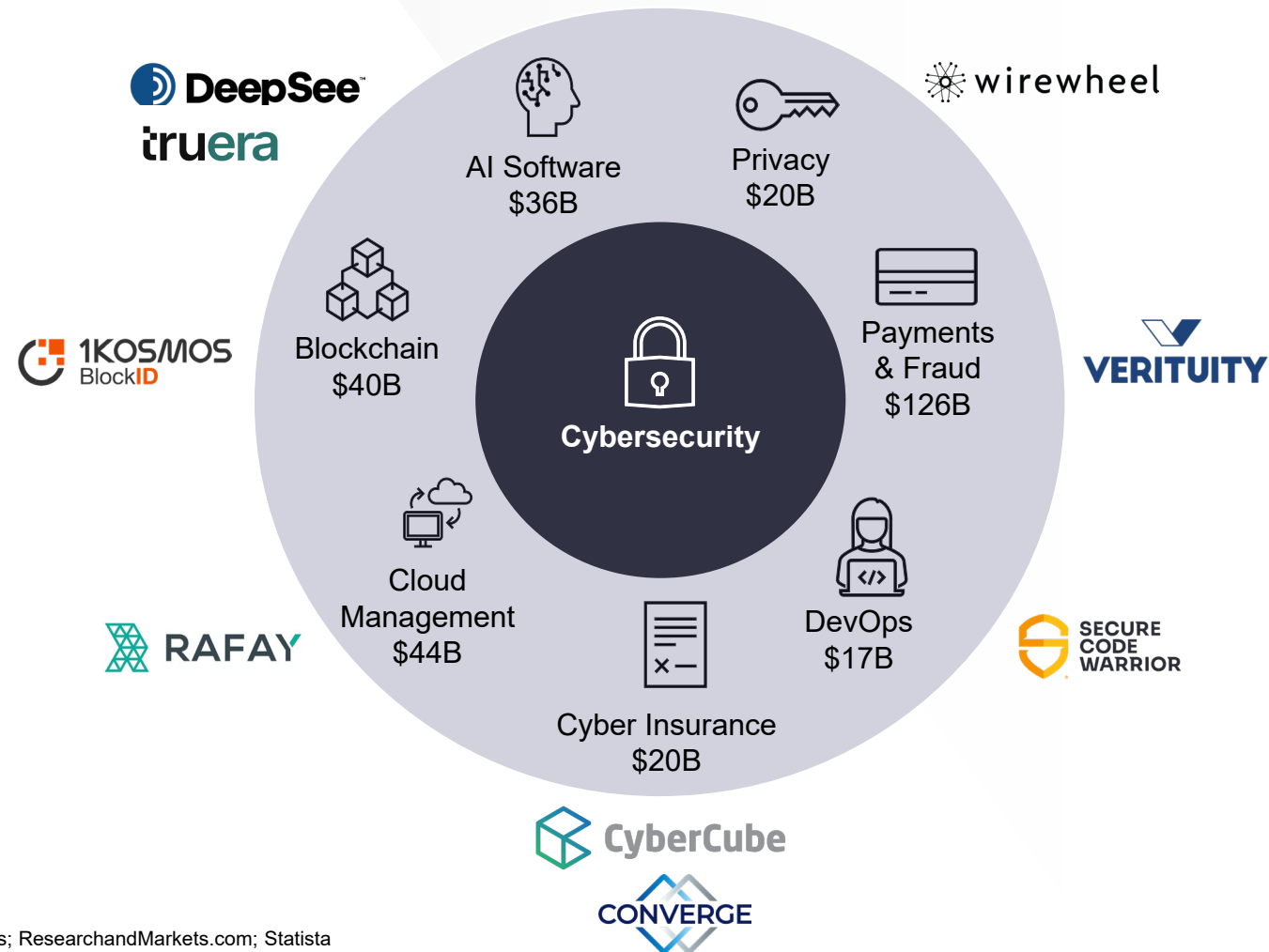
# Trends Driving Demand for Cybersecurity

The digital world has become more difficult to defend ...



# Growing Market with Expanded Investment Opportunity

Forgepoint is Well-positioned to Invest in Cybersecurity-Adjacent Sectors



Source(s): Forrester; Gartner; Markets and Markets; ResearchandMarkets.com; Statista

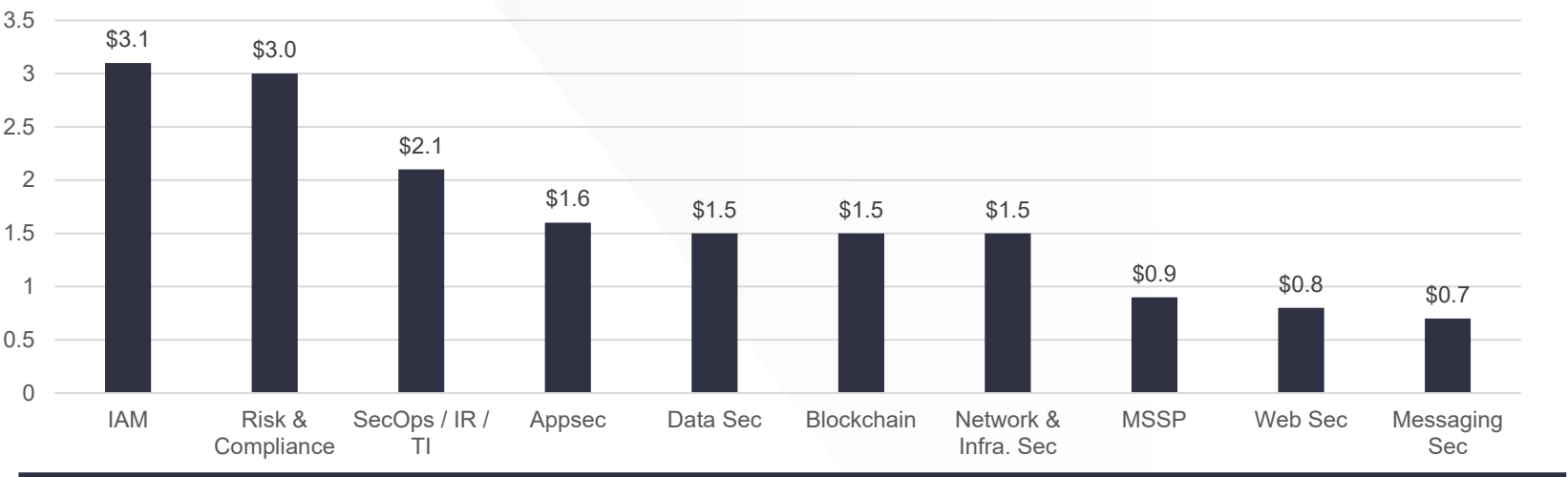
# 2022 Retrospective

# 2022 Financing & M&A

Identity led the charge for financing and M&A in 2022

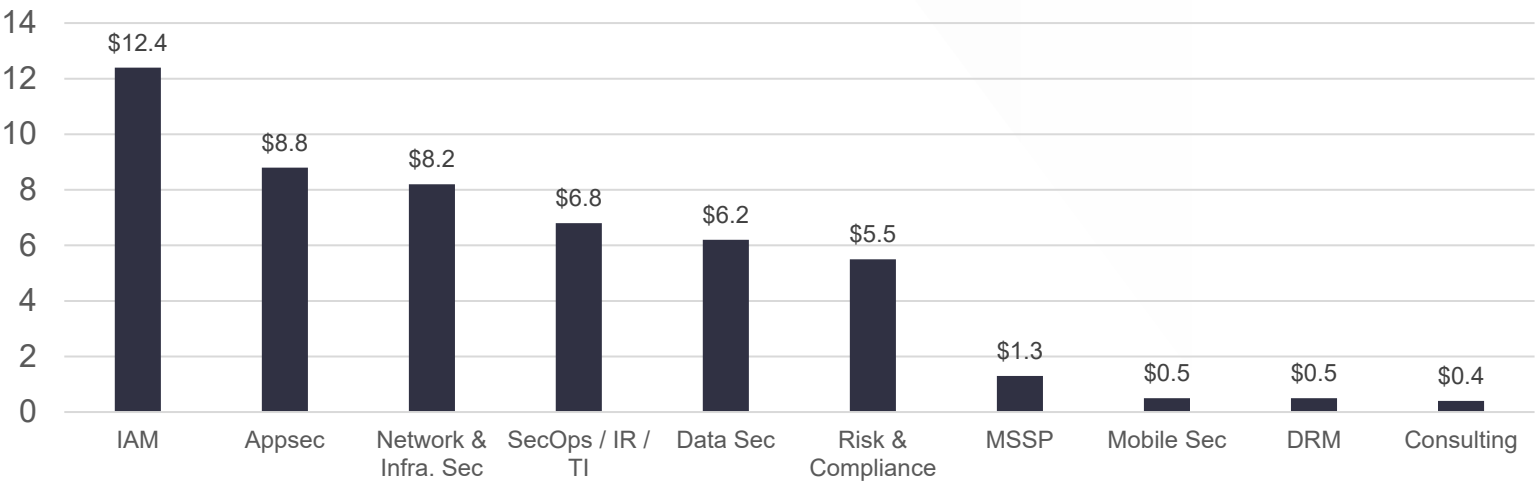
Financings

Financing Activity by Sector



M&A














M&A Activity by Sector



# Select Minority Transactions (2022)

There were >1,000 transactions

(\$ in millions)

Ann. Date	Lead Investor	Target	Amount	Valuation	Total Raised
Dec-22	 VECTOR CAPITAL	 Malwarebytes	\$100	NA	\$180
Dec-22	 QIA QATAR INVESTMENT AUTHORITY	 snyk	\$197	\$7,400	\$1,050
Dec-22	 ICONIQ	 DATA	\$200	\$2,000	\$328
Nov-22	 CARRICK Investing more than capital	 BISHOPFOX	\$129	\$600	\$166
Nov-22	 INSIGHT PARTNERS	 Island	\$175	\$1,300	\$261
Oct-22	 BlackRock	 VERSA NETWORKS	\$120	\$800	\$330
Aug-22	 PSG   PROVIDENCE STRATEGIC GROWTH	 bitwarden	\$100	NA	\$100
Jun-22	 B Capital Group	 perimeter 81	\$100	1,000	\$165
May-22	 KKR	 semperis	\$208	\$651	\$257
Apr-22	 Goldman Sachs Asset Management	 FORTRESS Information Security	\$125	NA	\$145
Mar-22	 VISTA EQUITY PARTNERS	 CRITICALSTART	\$215	NA	\$255
Mar-22	 BlueVoyant	 LIBERTY	\$250	NA	\$585




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# Select M&A Transactions (2022)

Several take privates as well as Google's acquisition of Mandiant

(\$ in millions)

Ann. Date	Acquirer	Target	EV	EV/Rev
Dec-22	 proofpoint.	 illusive	\$100	NA
Nov-22	 paloalto	 Cider	\$195	NM
Oct-22	 VISTA EQUITY PARTNERS	 KnowBe4	\$4,600	14.9x
Oct-22	 THOMABRAVO	 ForgeRock	\$2,300	12.0x
Aug-22	 THOMABRAVO	 PingIdentity	\$2,796	9.1x
Jul-22	 THALES	 onewelcome	\$102	NA
Jun-22	 Charter COMCAST (Joint Venture)	 LeL	\$50	NA
Jun-22	 RELIAQUEST	 digital shadows	\$160	6.4x
May-22	 PARSONS	 Xator	\$400	1.3x
May-22	 LexisNexis	 BehavioSec	\$130	17.5x
Mar-22	 SentinelOne	 Attivo NETWORKS	\$616	17.6x
Mar-22	 Google	 MANDIANT	\$5,357	10.6x

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# \$100M+ Capital Raises

49 companies raised ≥\$100M in 2022 totaling \$11.1B

90

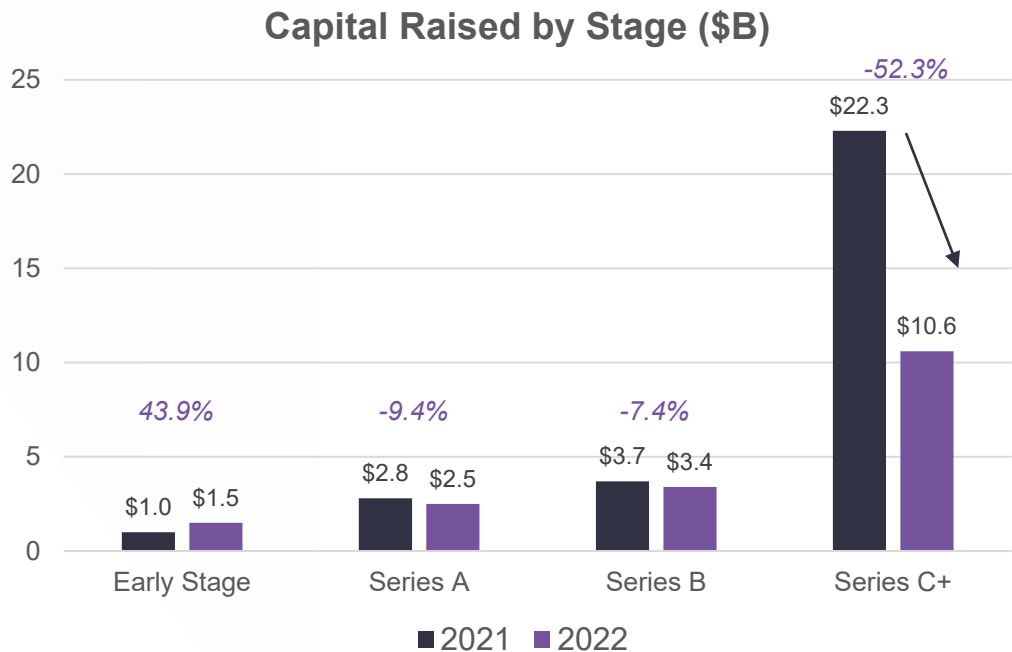
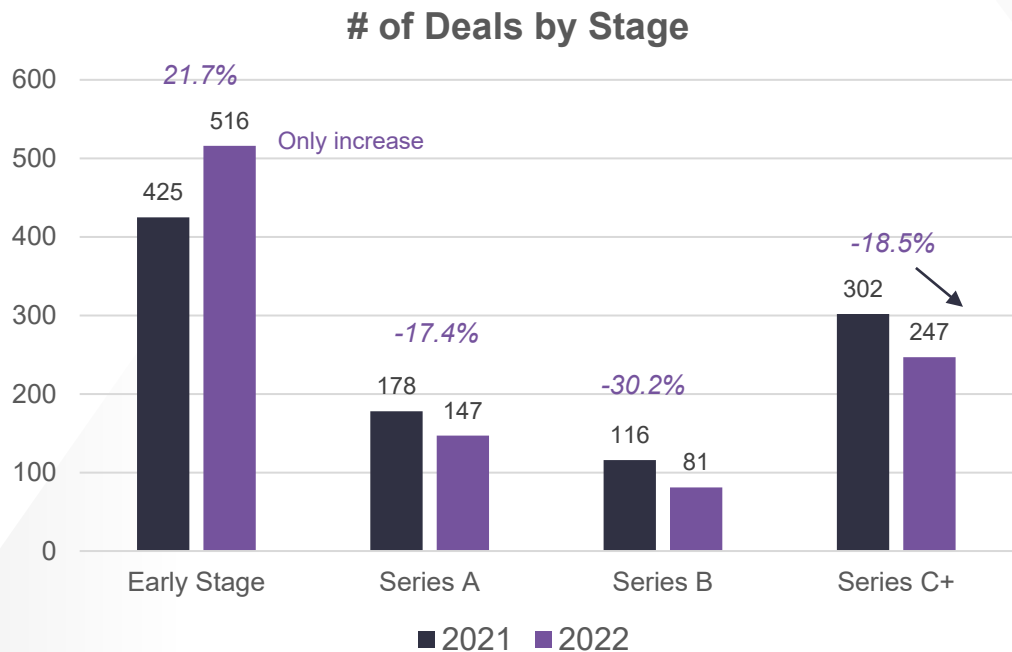
There are ~60 venture-backed unicorns and  
~30 PE-backed >\$1B → what happens to them?

There has been 33 security IPOs in last 10  
years; 21 currently



# Deals by Stage

Late stage deal count and capital raised dropped-off -18.5% and -52.3% in 2022, respectively

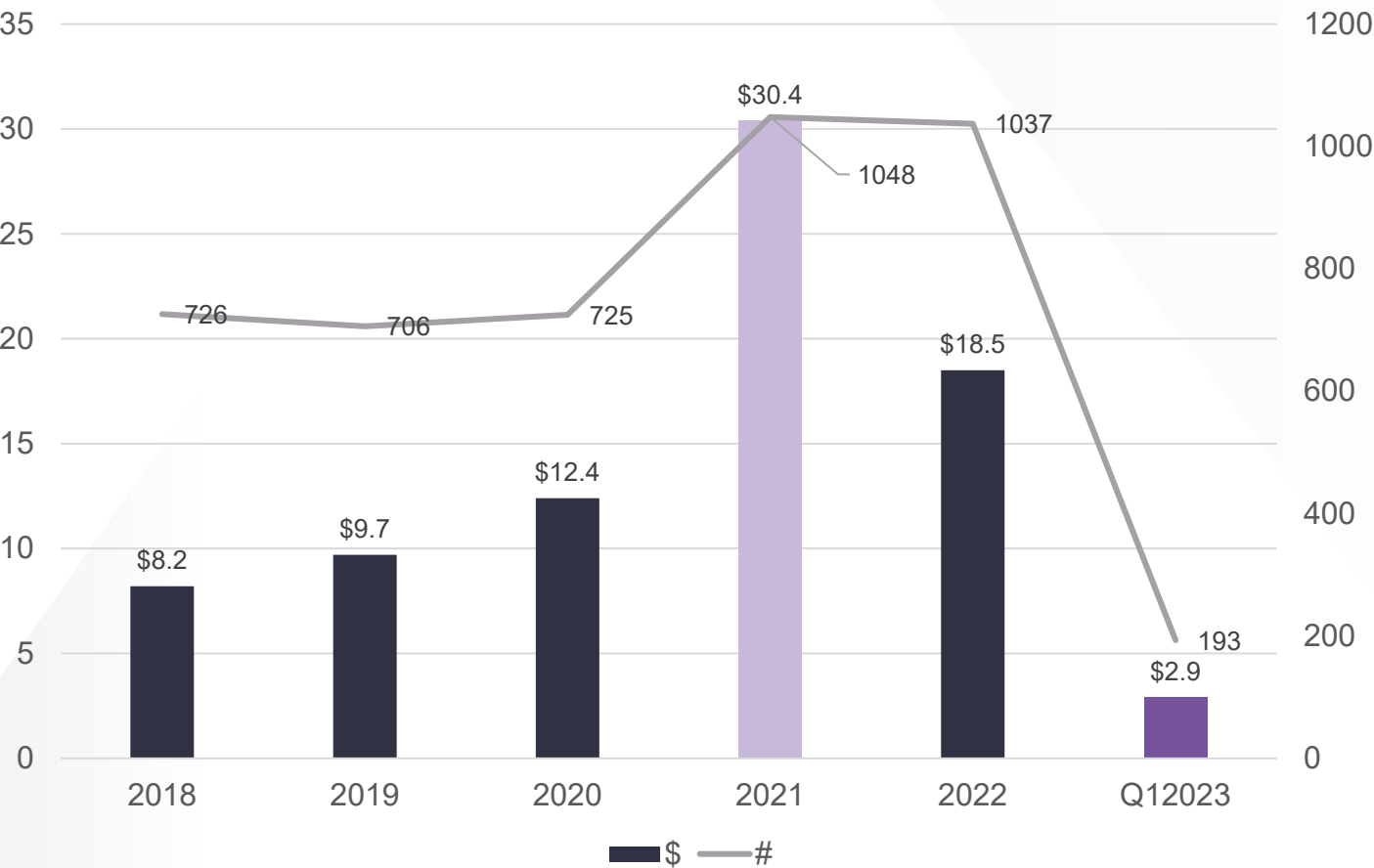


(median deal size)	Early	Series A	Series B	Series C+
2021	\$1.9	\$10.4	\$26.8	\$45.6
2022	\$2.3	\$13.9	\$36.0	\$25.0

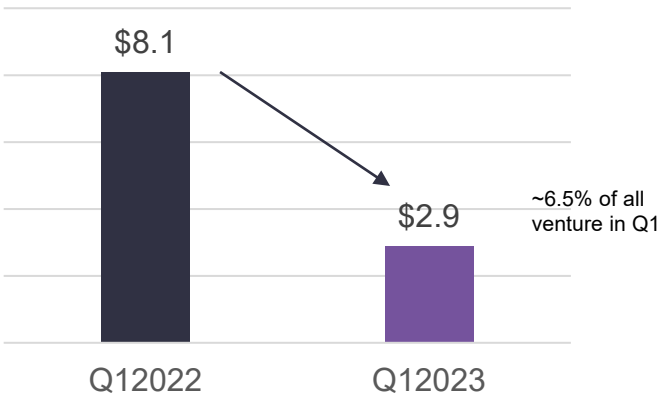
Deal size went up in 2022 except for late stage

# Funding

Peaked in 2021; Q12023 off to a slow start



Q1 2022 vs. Q1 2023



# 2023 and Beyond

# Q1 2023 Highlights

## JANUARY

### ▪ Highlights:

- Magnet Forensics m&a by Thoma
- SecZetta m&a by Sailpoint
- Large debts rounds by Saviyant and Netskope

▪ 16 m&a transactions announced → 33% YoY decrease

▪ 42 financing transactions → 61% YoY decrease

## FEBRUARY

### ▪ Highlights:

- Sumo Logic m&a by Fransisco Partners
- Wiz's \$300M Series D
- Deepwatch \$180M growth round
- SandboxAQ \$500 growth round

▪ 16 m&a transactions announced → 51% YoY decrease

▪ 47 financing transactions → 53% YoY decrease

## MARCH

### ▪ Highlights:

- **39 total deals** at ~\$900M invested
- 16 Seed
- 10 Early stage
- 13 Growth stage

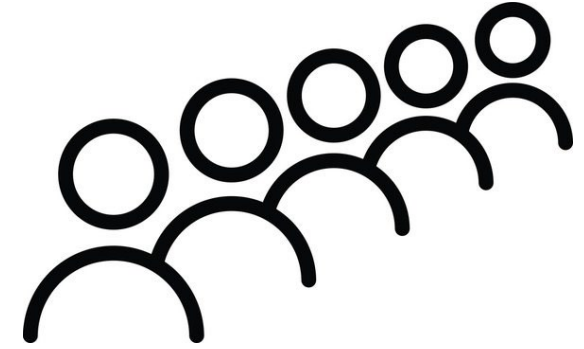
# Investing Trends

## What I'm hearing and seeing

- **Seed** – a lot of activity; seeing VCs come down market due to lack of later stage deals; SAFEs to bridge
- **Early Stage** (A & B) → valuations down; last round re-opened (flat) or bridge
- **Growth** → slow, lots of diligence, valuations a proxy of public market multiples
- **Flat and Down Rounds**
  - Effects on founders: dilution
  - Effects on investors: potential cram downs due to pay to play provisions (preferred to common)
  - Debt will be harder to get and more expensive

# 2022 vs. 2023 Cyber Startup Growth Rates

Data for companies between 30-200 FTE



## 2022

- ~**24%** of all companies 2x'd headcount YoY
- Only ~**12%** declined in headcount YoY

**Vs.**

## 2023

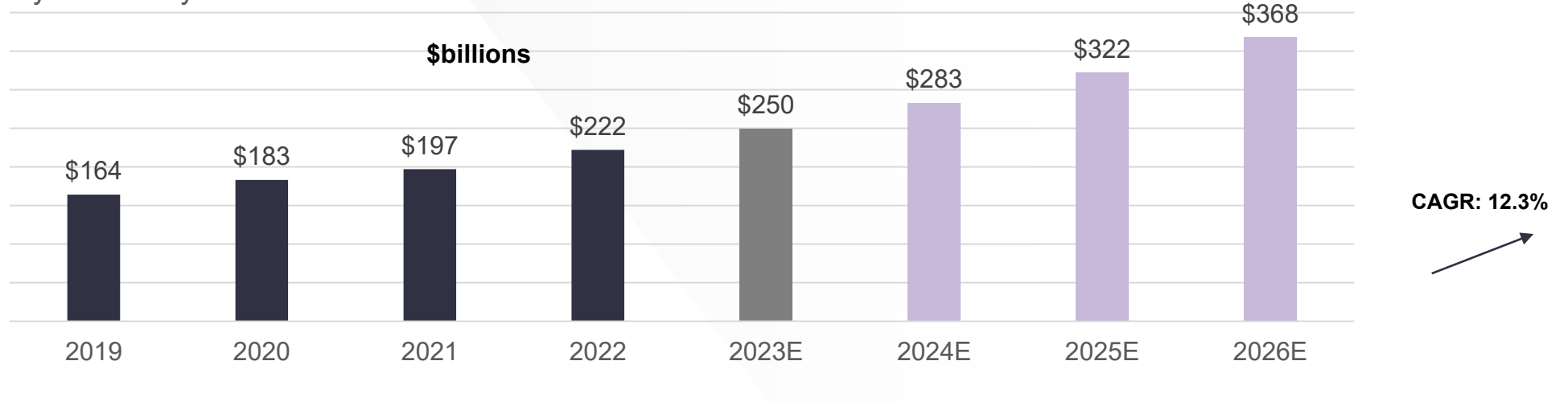
- ~**32%** of all companies declining in headcount YoY
- ~**66%** have remained +/- 25% FTE band, suggesting they've had hiring freezes in place
- ~1% have 2x'd headcount



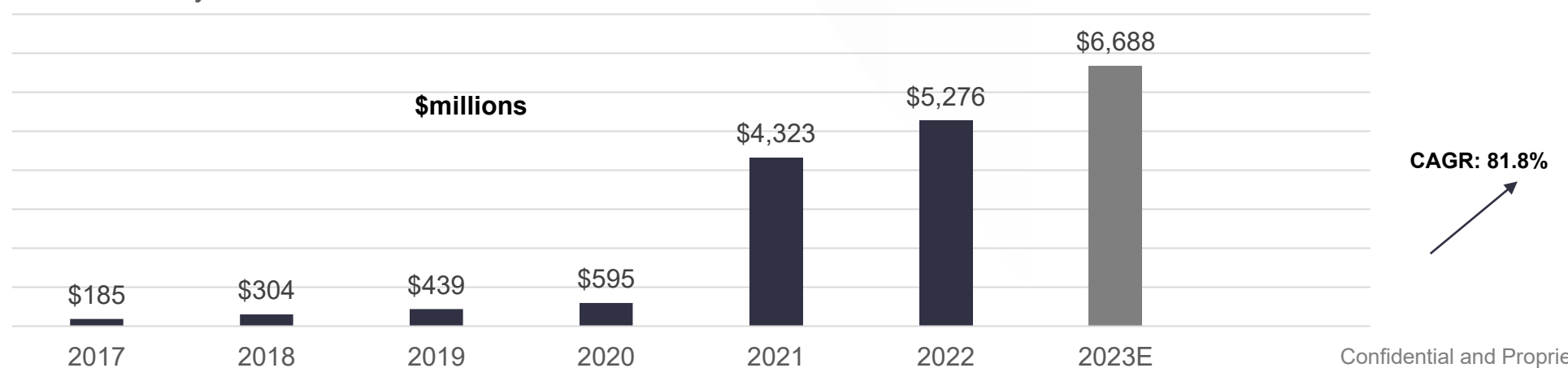
# Increasing Levels of Security & Cloud Security Spend

These are conservative projections – the true TAM is probably much larger ...

Cybersecurity Market Size



Cloud Security Market Size

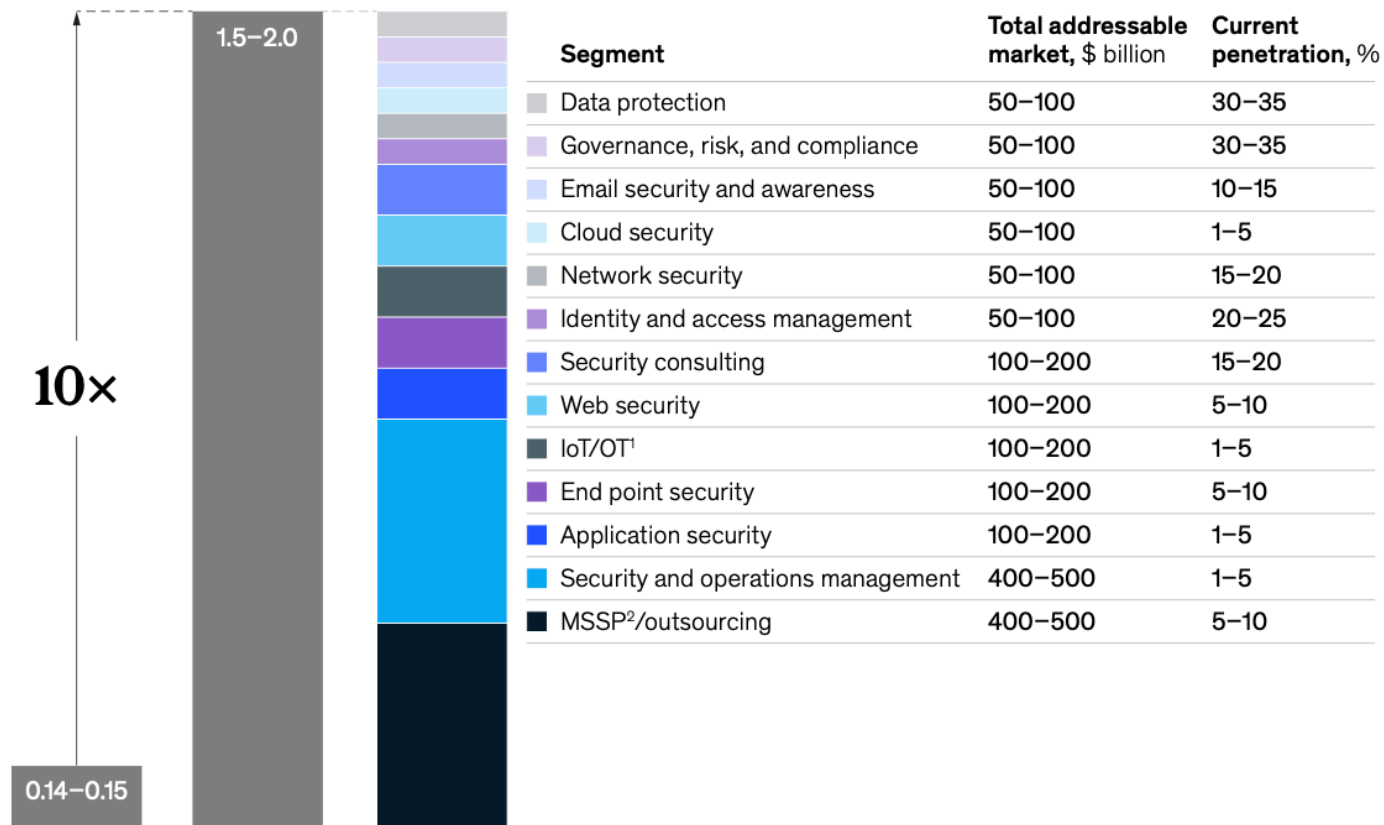


# Global Cyber Market Potential

New McKinsey survey reveals ~\$1.5 – 2.0 trillion market opportunity; penetration into most segments is small

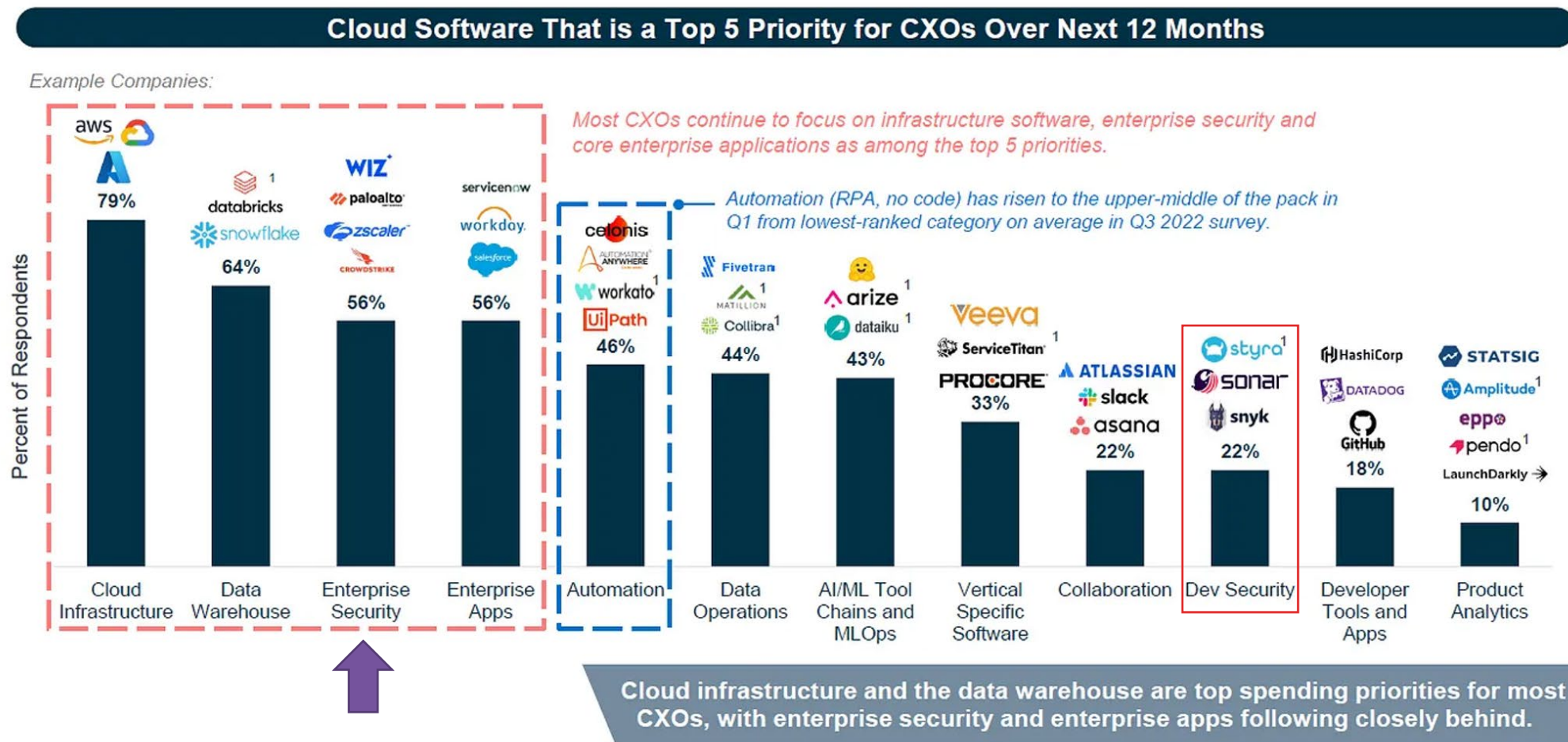
The global cybersecurity total addressable market may reach \$1.5 trillion to \$2.0 trillion, approximately ten times the size of the vended market.

Global cybersecurity market size, 2021, \$ trillion



# Cloud Software Spending Priorities

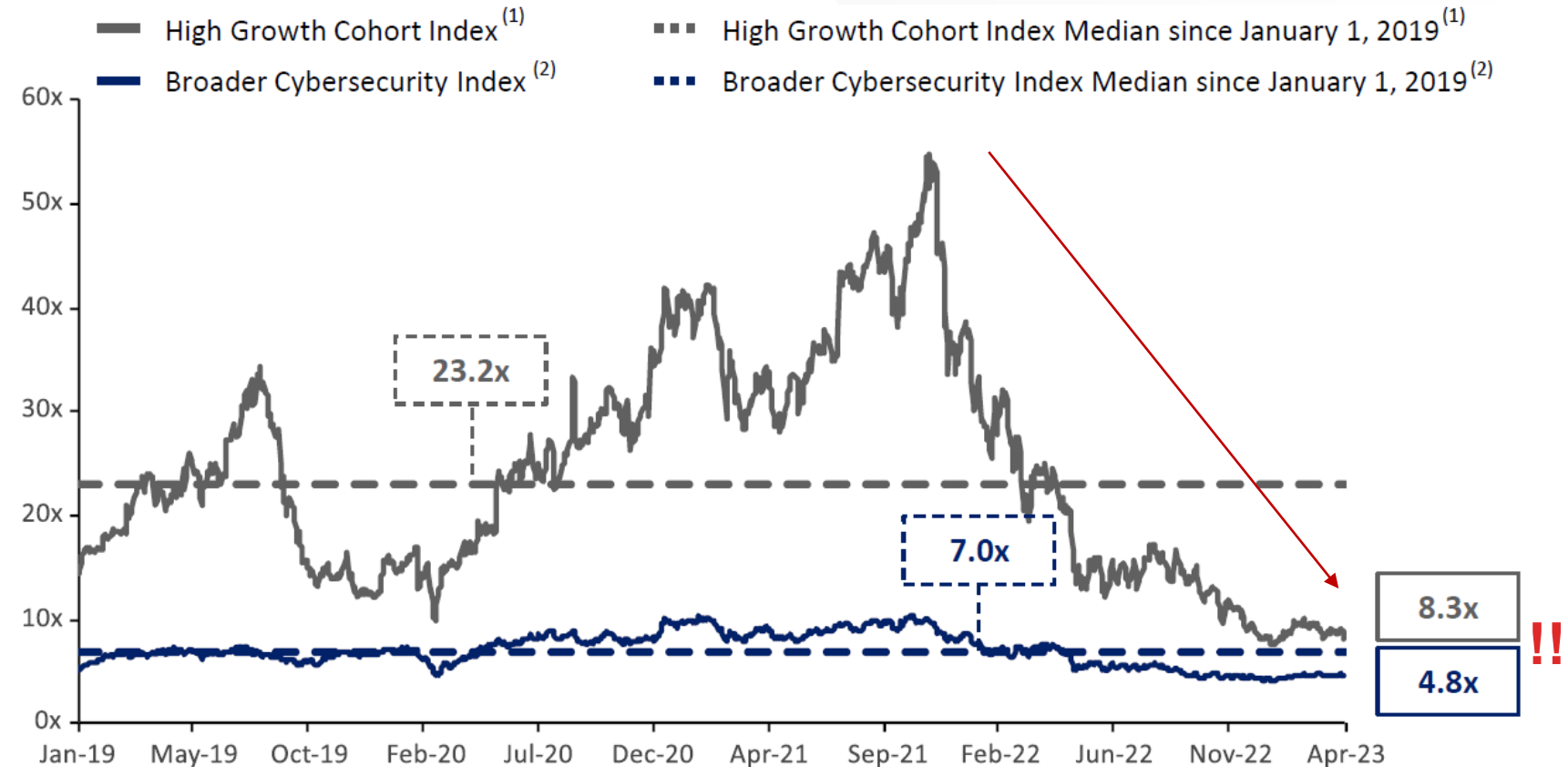
Cybersecurity is top 3 ...



Cybersecurity is not 100% recession proof – different product categories and/or company sizes have proven more resilient than others. Ex., IAM and EDR

# Valuations – Public Market

EV / Revenue (NTM) - high growth cohort vs. broader cybersecurity



## Top 5 Security Stocks (by EV / CY 23E Rev multiple)

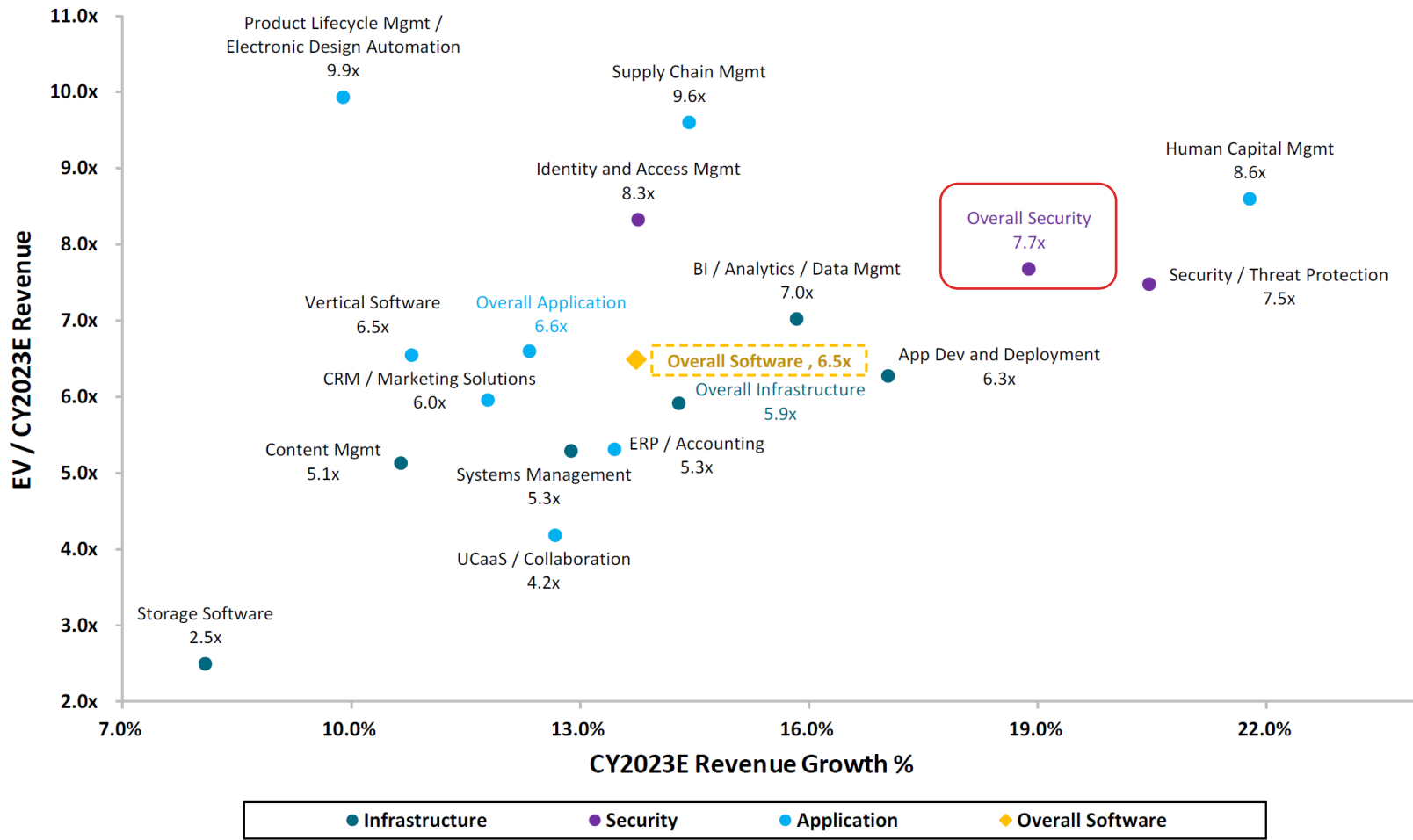
As of 14 April 2023

- Cloudflare – 16.4x
- CrowdStrike – 10.4x
- Fortinet – 9.8x
- Palo Alto – 9.4x
- Zscaler – 8.4x

Multiples have contracted >40%; startup entry valuations normalizing

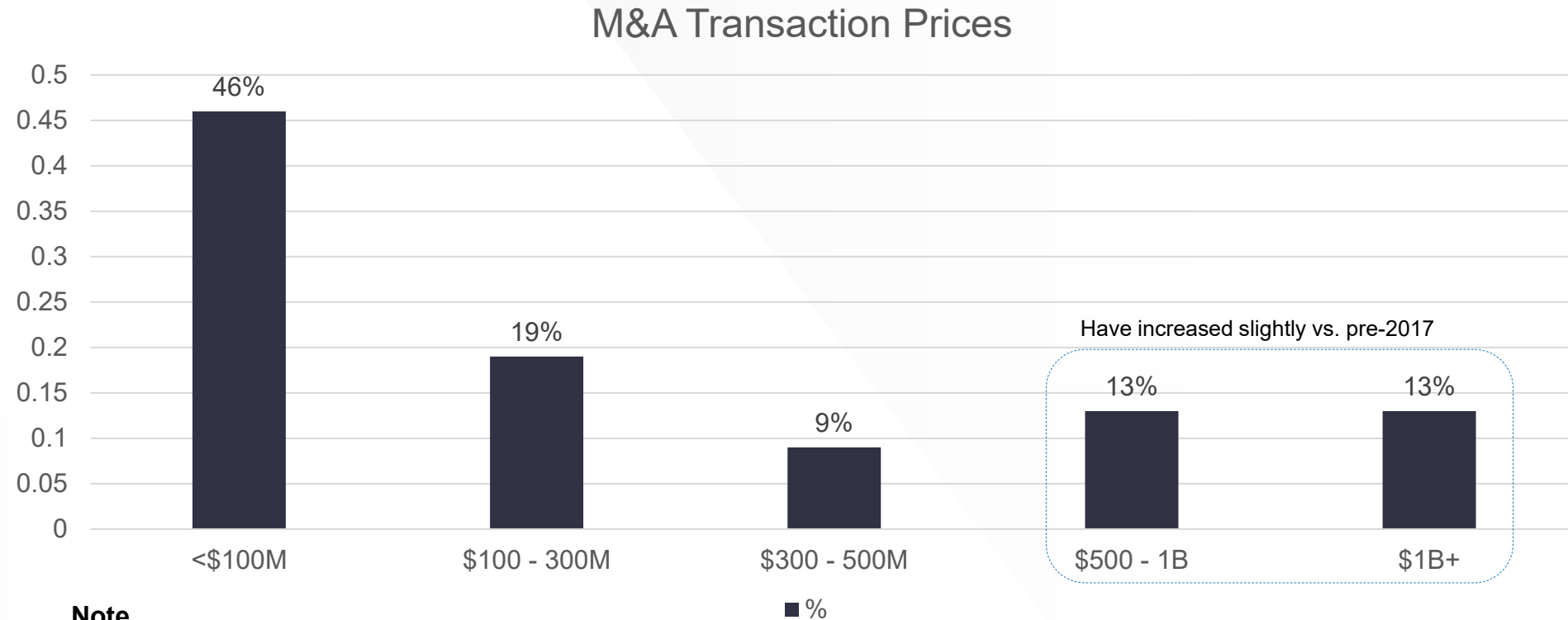
# Software Multiples by Sector

FWD Revenue Multiples



# M&A Deal Sizes

Based on ~800 control transactions since 2017



65% of cyber companies exit <\$300M. Price of entry determines the multiple at exit

# 2023 Predictions

## My thoughts ...

- **Rebound in M&A Activity in 2H**
  - Strategics & Sponsors looking for innovation and/or consolidation
- **Sustained Growth is the Expectation**
  - Investors focused on growth as a function of burn and even flirting w/ +EBITDA
- **Prevalence of Flat & Down Rounds will Increase**
  - Many companies have failed to grow into their previous valuations
- **Regulatory Ecosystem Accelerates**
  - Data privacy, protection and localization regulations happening at the country and state (U.S.) levels
  - Software security liability could shift (U.S. Cyber Strategy Pillar III)
  - AI regulation heating up – not to mention call for pauses on large-scale AI
- **More Extortion, Less Ransom; BEC Increases**
  - Ransomware-as-a-Service has lowered barriers to entry
- **AI and Cyber will Collide**
  - Thanks, OpenAI ☺; SecOps will benefit first – ex., MSFT Security Copilot
  - Cyber talent gap will only close w/ AI / automation
- **Cloud Security Spend**
  - Currently 1-2% of public cloud spend on security; this percentage will inch up another ~1%
- **Shift from Protect to Detect & Respond**
  - Shift in mentality to one of operational resiliency – they're already in ...
- **Product Led Growth (PLG) Will become more Prevalent**
  - Companies will experiment with their GTM to demonstrate faster time to value to both security practitioners and devs



# ChatGPT's Take on Cyber Trends

## Original Output



As of my knowledge cutoff in 2021, here are some of the latest cybersecurity trends:

1. Remote Workforce Security: The COVID-19 pandemic has led to a significant increase in remote working, which has resulted in new cybersecurity challenges.
2. Artificial Intelligence (AI) and Machine Learning (ML): AI and ML are being used to enhance cybersecurity measures, such as threat detection and response.
3. Zero Trust Architecture: The Zero Trust security model is becoming increasingly popular. It involves continuously verifying users and devices to prevent unauthorized access.
4. Cloud Security: Cloud computing is becoming more prevalent, which means securing cloud-based infrastructure and data is becoming increasingly important.
5. Identity and Access Management (IAM): IAM systems are being used to control access to sensitive information and prevent unauthorized access.
6. Internet of Things (IoT) Security: With the proliferation of IoT devices, cybersecurity experts are focusing on securing these devices and the data they collect.
7. Phishing and Ransomware Attacks: Cybercriminals are becoming more sophisticated in their attacks, with phishing and ransomware attacks being some of the most prevalent.
8. Cybersecurity Talent Shortage: The demand for cybersecurity professionals is outpacing the supply, which is leading to a talent shortage.
9. Privacy and Data Protection: There is an increasing focus on privacy and data protection, with regulations such as GDPR and CCPA being implemented to protect personal data.
10. Cyber Insurance: As the threat landscape evolves, businesses are increasingly turning to cyber insurance to protect themselves from financial losses due to cyberattacks.

🔄 Regenerate response



Here are some of the latest cybersecurity trends:

## Regenerated Output

1. Artificial Intelligence (AI) and Machine Learning (ML) in Cybersecurity: AI and ML are being increasingly used to identify and prevent cyber attacks. They help to analyze vast amounts of data to detect patterns, anomalies, and suspicious behavior.
2. Cloud Security: As more businesses move their operations to the cloud, securing data stored in the cloud has become a top priority. Cloud security solutions are continuously evolving to protect against data breaches and unauthorized access.
3. Zero Trust Architecture: Zero trust security is a model that assumes that every user, device, and network is potentially compromised and therefore needs to be verified before granting access to any resources.
4. Ransomware Attacks: Ransomware attacks continue to be a major threat to businesses and individuals. Hackers are increasingly using advanced techniques to target organizations with high-value data and demand large sums of money to release the data.
5. Internet of Things (IoT) Security: With the increasing use of IoT devices, there is a growing concern about the security risks associated with them. Hackers can gain access to sensitive data through these devices, making it crucial to implement strong security measures.
6. Privacy and Compliance: With the increasing number of data breaches, consumers are becoming more aware of their privacy rights. Companies are under pressure to comply with new data protection regulations and to implement strong privacy policies.
7. Quantum Computing: Quantum computing has the potential to break many of the encryption algorithms that are currently used to secure data. Cybersecurity professionals are working to develop new encryption methods that can resist quantum attacks.
8. Mobile Security: As more people use mobile devices for work and personal activities, securing these devices has become a critical challenge. Hackers are increasingly targeting mobile devices to steal data, and mobile security solutions are evolving to protect against these threats.

Was this response better or worse?

👍 Better

👎 Worse

⚖ Same







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# Thank You!