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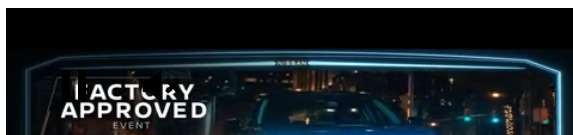
## TECHNOLOGY

# Cybersecurity Stocks To Watch Amid Shift To AI, Cloud



REINHARDT KRAUSE | 09:45 AM ET 03/06/2024

**Y**ou may think the time is right to move into cybersecurity stocks amid high profile hacking incidents. Also, buzz surrounding artificial intelligence is driving investor interest in cybersecurity stocks. And, federal government spending on cybersecurity should provide a boost in 2024, analysts say.

**X**

As of March 6, the IBD Computer Software-Security group ranked No. 30 out of 197 industry groups that IBD tracks. That was down from No. 9 a week ago.

Also, three cybersecurity stocks are members of the **IBD 50 roster of growth stocks: CrowdStrike (CRWD), SentinelOne (S) and Cloudflare (NET).**

CRWD stock jumped on its **better-than-expected Q4 earnings** and outlook.

"Q4 was the company's fourth consecutive quarter of positive GAAP earnings, meaning that CrowdStrike could potentially be eligible for S&P 500 inclusion," said a Bank of America report.

**Zscaler (ZS)**, a big player in the **fast-growing SASE market**, has dropped off the **IBD Leaderboard**. Billings, a sales growth metric, is an issue for ZS stock amid go-to-market changes.

## Cybersecurity Price War Coming?

**Palo Alto Networks' (PANW)** fiscal second-quarter earnings report and reduced 2024 guidance for PANW stock sent **cybersecurity stocks down**. Palo Alto's decision to bundle more products in discounted packages as part of a "Platformization" strategy could spark a pricing war, some investors worry.

At Jefferies, analyst Joseph Gallo said in a report: "PANW's results will take the cyber complex down given fears of broad-based enterprise spend fatigue."

The big picture: cybersecurity services delivered via cloud computing platforms are in favor. Many companies are moving away from on-premise computer network "firewall" appliances.

Raymond James analyst Adam Tindle forecast a fast-growing cloud security market in a recent report. "We arrive at a \$16 billion cloud security total addressable market in 2024, growing faster than a 20% three-year, compound annual growth rate, to hit \$30 billion in 2027."

Problem is, public cybersecurity firms are in a fierce battle with feisty cloud security startups for market share. Among the startups: Wiz, Lacework and Snyk.

## Cybersecurity Stocks: Microsoft Competition

The cybersecurity stocks have thrived despite **growing competition from cloud computing giant Microsoft (MSFT)**. Microsoft aims to integrate artificial intelligence tools into its security platform. Called **Microsoft Security Copilot**, the platform uses a new AI assistant.

The recent hacks on casino operators **MGM Resorts (MGM)** and **Caesars Entertainment (CZR)** underlined worries that generative AI will increase **ransomware attacks**.

Meanwhile, the Securities and Exchange Commission has new disclosure rules for public companies. The rules require companies to report hacking incidents within four business days if they have a material impact on operations.

Further, research firm Gartner has updated its forecast for corporate spending on cybersecurity. The research firm sees a 14% rise in 2024 to \$215 billion.

That's up from its earlier forecast for 11% growth. And, that's better than most information-technology spending categories.

In 2024, spending on cloud security products and services will jump nearly 25% to \$7 billion, Gartner predicts.

## Cybersecurity Stocks: AI Double-Edged Sword

Meanwhile, both computer security firms and hackers are expected to make use of generative AI tools. Here's a look at the **AI cybersecurity battle**.

Cybersecurity firms expect generative AI tools to help reduce the time to detect and respond to many forms of computer hacking. Also, they see generative AI automating more functions in security operations centers to help companies deal with a shortage of software engineers.

According to a Morgan Stanley survey of chief information officers in 2022, cloud computing and security software remained at the top of priority lists, followed by business intelligence/analytics, digital transformation and artificial intelligence.

Analysts say a new wave of startups is taking share from industry incumbents. They include Netskope, Wiz, Snyk, Lacework and Illumio. Analysts say others to watch include Vectra AI, Venafi, Recorded Future, Noname Security, Obsidian Security, Deep Instinct and Skyflow. The startups pressure incumbents into higher research and development spending.

Funding continues to go to cybersecurity startups. Cloud security firm Wiz recently raised \$300 million at a \$10 billion valuation.

## Cybersecurity Stocks And Private Equity

Private-equity firms remain active. Thoma Bravo in October 2022 agreed to buy ForgeRock for \$23.25 a share in an all-cash deal valued at about \$2.3 billion. The deal represented a 53% premium to ForgeRock's closing share price on Oct. 10. The deal is expected to close in the first half of 2023.

Earlier, Thoma Bravo acquired **Ping Identity Holdings (PING)** for \$2.8 billion. Thoma Bravo also has acquired cybersecurity firms SailPoint Technology, Proofpoint, Sophos and Barracuda. The private equity firm has invested in cybersecurity startups, such as Illumio.

Also, private-equity firm Permira in May completed its purchase of Mimecast for \$5.8 billion.

## **Federal Market A Tailwind?**

Google-parent **Alphabet (GOOGL)** last year acquired cybersecurity firm Mandiant in an all-cash \$5.4 billion deal. Mandiant is now part of Google's cloud computing business.

Further, Google in 2022 acquired Siemplify, a security orchestration, automation and response provider, for around \$500 million.

Still, some computer security firms could get a boost from new federal government initiatives.

The Cyber Incident Reporting Act of 2023 requires agencies, federal contractors and critical infrastructure operators to notify the Department of Homeland Security when a data breach is detected, a significant step in building security.

In addition, **Ransomware remains a big threat.**

## **Cybersecurity Stocks: Wide Range Of Products**

Further, it behooves an investor to know which cybersecurity stocks address ransomware, phishing or other kinds of cyberattacks.

Meanwhile, CrowdStrike uses machine learning and a specialized database to detect malware on laptops, mobile phones and other devices that access corporate networks. In addition, many software companies are **using artificial intelligence to get a competitive edge**.

In addition, Zscaler is the biggest provider of **cloud-based web security gateways** that inspect customers' data traffic for malware.

SailPoint, an identity management software maker, is among companies that garner more than 10% of revenue from government agencies.

Other cybersecurity firms with a sizable government business include **Tenable (TENB)**, Rapid7 and **CyberArk (CYBR)**. Tenable in 2021 acquired France-based Alsid, which focuses on identity access management.

In addition, **Rapid7 (RPD)** and **Qualys (QLYS)** specialize in vulnerability management services.

Amid the rapid global spread of Covid-19, many companies instructed employees to work from home. That has increased demand for computer security products that support remote work.

The coronavirus emergency and shift to remote work has accelerated the growth of cloud-based network security. So the industry now has a new term for the infrastructure that supports distributed workers and branch offices.

## **SD-WAN Technology Changes Security Needs**

Corporate America has hiked tech spending on security aiming to protect intellectual property as well as consumer privacy. Hackers continue to steal credit card data and intellectual property.

Spending on security technologies has evolved as companies shift business workloads to cloud computing service providers. Amazon Web Services, part of **Amazon.com (AMZN)**, is the biggest cloud services firm. Amazon looms as a potential rival to companies like Cloudflare as it builds more security tools into its cloud services.

Also, **Fortinet (FTNT)** competes with Palo Alto Networks and others in the firewall security market. Firewalls reside between private networks and the internet. They block unauthorized traffic and check web applications for malware.

As large companies shift to off-premise cloud computing services, one view is that firewall technology will play a lesser role. Fortinet has targeted software-defined wide area networks, or SD-WANs, an emerging computer networking technology.

## Cybersecurity Products Battle Ransomware, Phishing

Further, cybersecurity stocks span a wide-range of products and services. In addition, some security vendors are shifting to software-based subscription business models from selling hardware appliances. Among them, Proofpoint specializes in email and data-loss protection.

Meanwhile, hackers often aim to compromise networks by targeting employees or management who have administrative access. **CyberArk (CYBK)** manages privileged accounts. In addition, Okta provides identity verification services.

To slow down hackers, more companies are focusing on internal security threats through a strategy known as **Zero Trust**. In addition, traditional security measures aim to keep the bad guys out of corporate networks. Further, network firewalls focus on intruders from the public internet.



Zero Trust cybersecurity models focus on internal threats, such as hackers stealing someone's security credentials. Security firms verify the identity of network users and limit access to applications.

CrowdStrike, **Okta (OKTA)**, Netskope and Proofpoint recently formed a Zero Trust alliance. Targeting Zero Trust security, **Cisco Systems (CSCO)** in 2018 acquired Duo Security for \$2.35 billion.

Also, many fast-growing cybersecurity firms are in the endpoint market. Their tools detect malware on laptops, mobile phones and other devices that access corporate networks.

Also, investors might consider the **Global X Cybersecurity ETF (BUG)** for a more broad exposure to the sector.

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