

## Technology, Media & Telecom: Enterprise Software

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April 24, 2015

Industry Update

### Takeaways from RSA 2015; Next Generation Threats Putting Jet Fuel in the Cybersecurity Engine for 2015/2016

This week, we attended the RSA Conference 2015 in San Francisco where hundreds of cybersecurity vendors (and tens of thousands of attendees) were present, with the core focus being the next-generation threat environment. Coupled with data points in the field in recent months and solid 1Q earnings results so far, our conversations at the RSA conference this week have left us incrementally positive on the next-generation cybersecurity space as a whole. Security vendors of all shapes and sizes are seeing massive demand in the field, given a sense of urgency at the enterprise to upgrade legacy systems in order to protect against network vulnerabilities and avoid the reputational damage of becoming another high-profile attack (e.g., Anthem, Sony, JPMorgan, etc.). To this point, we picked up data points indicating a likely discernible step-up in cybersecurity budgets and potential deal sizes, as our conversations with key enterprise and government IT decision makers (CIOs, etc.) indicate they plan to increase security spending by an estimated ~28% in 2015. One CISO from a large Fortune 100 financial organization told us, "I came here to RSA with double the security budget I had last year to figure out how we can finally protect our network and cloud infrastructure. Our CEO wants me to call him tonight with an update." With enterprise and government customers seeing a massive uptick in threats, malware, and attacks on networks, we are seeing a clear changing of the mindset. Many CIOs have focused significantly more resources toward this "epidemic," as one IT product manager from Europe told us. Overall, we come away from the RSA Conference increasingly confident in the advanced security software space, as we believe next-generation cybersecurity spending is "white hot" as the spotlight on these technologies appears to be accelerating focus on protecting the enterprise/cloud/big data and leading CIOs to spend in this high-priority area.

- **A number of next-generation security vendors remain front and center.** While there are a number of vendors fighting for market share in this high-priority area of the tech food chain, we believe there are a handful of players that have the "right products at the right time" and should disproportionately benefit from a healthy spending environment and accelerating share gains from larger vendors (e.g., Cisco, Juniper). Our favorite names in the security space are Palo Alto Networks, FireEye, Fortinet, Proofpoint, and Check Point.
- **Enterprises looking to converge next-generation security solutions.** A recurring theme at this year's RSA conference was the focus around convergence, which appears to be gaining momentum, as opposed to a wide range of disparate threat prevention offerings, with vendor-specific management consoles overseeing a number of point solutions that have their own specialized function, such as APT prevention, anti-malware, DDoS protection, etc. We continue to expect more partnerships (e.g., Check Point/FireEye) and M&A activity (e.g., Raytheon/Websense), as a more collaborative IT ecosystem facilitates strong cyber protection for CISOs, in our opinion.
- **Government spending also poised to add growth tailwinds.** On the federal front, we continue to believe cyber spending is poised to pick up and add top-line growth tailwinds to next-generation cybersecurity vendors as the Administration appears laser-focused (creation of the Cyber Threat Intelligence Integration Center, joint cybersecurity work between the U.S. and U.K., recent executive order) on strengthening/ensuring protection for potentially exposed critical infrastructure (e.g., financial systems, power grids, pipelines, healthcare systems, etc.) over the coming years.

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