

Yahoo hack, global cybercrime expected to drive up cybersecurity stocks

Cybersecurity Ventures quarterly report on publicly-traded cybersecurity firms

MENLO PARK, CA, USA, October 3, 2016 /EINPresswire.com/ -- [Cybersecurity Ventures](#) releases the Q3 2016 [Cybersecurity Stock Report](#).



Niche players CyberArk Software and Proofpoint bucked a broad Q2 slowdown for publicly-traded cybersecurity companies which, on average, saw sales growth slow by nearly 5 percent vs. the prior quarter.

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Cybersecurity Stock Report

But, Yahoo’s 500 million-account breach, revealed in late September, and a greater ransomware threat targeting the healthcare sector could stoke robust spending in Q3, and a boosted interest in M&A within the sector, PureFunds CEO Andrew Chanin says.

“Any player with a large amount of cash on their balance sheet and a smaller footprint” will likely soon become acquisitive, Chanin said. He declined to comment on specific firms, but said he’s seeing an M&A drive from the diversified tech and defense sectors.

Chanin runs the HACK exchange-traded fund which has ramped 35 percent since hitting a 2016 low in February. Shares of the 35-company ETF are now up 7 percent for the year. Sales growth wasn’t strong overall in Q2, but Chanin says investor appetite is returning.

He credits the cybersecurity stock resurgence to the “cat-and-mouse” paradigm emblematic of the industry. With breaches of Yahoo, Snapchat, LinkedIn and Dropbox in the rearview, companies are on edge. And investors are ready, Chanin says.

“Some of this movement (in the HACK ETF) could be investor appetite coming back and making up from being one of the more oversold areas of technology,” he said. “We could be seeing a trend change here.”

Q2 In Review

Wall Street titters of a broad cybersecurity slowdown have plagued the industry since February when former FireEye CEO David DeWalt said “emergency spending” in the wake of the notable Target and Home Depot breaches had subsided.

Analysts have largely dismissed the suggestion as cybersecurity darlings like Palo Alto Networks, CyberArk, Proofpoint, Mimecast and Rapid7 continue outgrowing the broader industry. Cybersecurity Ventures, too, isn't a believer in the so-called slowdown.

Public pure players like Palo Alto, FireEye and Check Point Software Technology are feeling the heat from tech giants like Cisco Systems and IBM, and hundreds of venture capital-backed start-ups, says Cybersecurity Ventures' founder and editor-in-chief Steve Morgan.

On average, security firms publicly-traded on the NYSE or NASDAQ grew 7.2 percent in Q2, slowing from 12 percent growth in Q1. Growth was more robust in Q4 and Q3 when security players tacked on 19.9 percent and 24.8 percent, respectively, in average sales growth.

That's amid more competition from tech giants like Cisco and IBM which saw security sales grow 16% and 18% for their quarters ended in July and June, respectively. Security comprises 4 percent of Cisco's total sales and 2.5 percent of IBM's.

But, there were standouts among the pure players. Small-cap Rapid7 led the pack in terms of sales growth, up 45 percent year over year to \$37.3 million. That sales growth came at the expense of earnings. Rapid7 lost 22 cents per share ex items.

Meanwhile, bigger Palo Alto and Proofpoint trailed, up 41 percent vs. the year-earlier quarter to \$400.8 million and \$89.8 million in sales. Palo Alto posted 50 cents EPS minus items, up 79 percent and Proofpoint swung to a 6-cent gain vs. a 9-cent loss in the year-earlier period.

The enterprise market is largely a "two-horse race" between Palo Alto and Check Point, Piper Jaffray analyst Andrew Nowinski wrote in a Sept. 12 research note following calendar Q2. Check Point trails Palo Alto in terms of market cap.

But Check Point's Q2 sales growth of 7 percent decelerated from 10 percent year-over-year growth in the prior quarter, and wasn't enough to keep up with small-caps like Rapid7 and root9B.

Adversary pursuit and cyber operations specialist root9B tops Cybersecurity Ventures' [Cybersecurity 500](#) list. During Q2, root9B shifted focus to become a pure cybersecurity play. It pulled in \$10.2 million in sales, up 28 percent, but losses widened to 6 cents per share.

Healthcare, IoT, Mobile Expected To Drive Q3

root9B is diving full-tilt into mobile protection where it will face off with niche players like Mimecast and Proofpoint. The mobile and Internet of Things segments were key in Q2 — evidenced by Mimecast's 24 percent sales growth during the quarter.

PureFunds' Chanin, Business Insider and market tracker IDC all say mobile will be a driving force in Q3 and beyond. Malware is now refocusing to smartphones and mobile devices, leaving laptop and PC attacks largely in the dust, Cybersecurity Ventures' Morgan says.

Meanwhile, ransomware's torqued advance will push an expected \$6 trillion in cybercrime losses by 2021, according to a Cybersecurity Ventures analysis. Thus far in 2016, ransomware attacks are up 300% including a \$17,000 hit on Hollywood Presbyterian Medical Center.

Attacks on the healthcare sector are up 35 percent year to date vs. this time last year, Cybersecurity Ventures found in its Hackerpocalypse report. In 2015, healthcare, manufacturing, financial services, government and transportation were the most targeted cyber-industries.

That's because medical data is immutable and victims don't always know they've been breached. Largely, companies are in the same straits, PureFunds' Chanin says. That lingering specter spooks — and drives — the cybersecurity industry, he says.

"There's always another major breach looming," he said. "We're just finding out about Yahoo now. How many more companies are there that have been breached and are just trying to figure out what to do?"

Spending Outlook

"We expect worldwide spending on cybersecurity products and services to eclipse \$1 trillion cumulatively for the five-year period from 2017 to 2021" says Steve Morgan, founder and Editor-In-Chief at Cybersecurity Ventures.

Cybersecurity Ventures anticipates 12-15 percent year-over-year growth through 2021, compared to the 8-10 percent projected over the next five years by several industry analysts.

Rob Owens, Senior Research Analyst for Security and Infrastructure Software at Pacific Crest Securities, recently told Investor's Business Daily that he sees pent-up demand for cybersecurity spending. He says companies are spending a relatively low 3 percent of their capex (capital expenditures) that's focused on IT security."

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