Transforming Innovative Security Concepts into Disruptive Security Companies
A nostalgic (and sad) look at the past

In 2002, the cybersecurity market was consolidated and non-competitive.
A nostalgic (and sad) look at the past

In 2002, the cybersecurity market was consolidated and non-competitive.

- PKI
- Firewall
- Intrusion Detection
- Identity and Access
  - Mobile Data Protection
  - MSSPs
A lot has changed since 2002

Gartner’s security product categories tripled by 2014.
Why the change?
The problem is getting much worse
Security is now a Main Street issue

THE WALL STREET JOURNAL.

FOX NEWS channel

CNN

The New York Times

The Washington Post

Forbes
The market is finally rewarding the innovators

<table>
<thead>
<tr>
<th>SYMBOL</th>
<th>NAME</th>
<th>PRICE/SALES</th>
<th>MKT CAP</th>
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<tr>
<td>PANW</td>
<td>Palo Alto Networks, Inc.</td>
<td>17.75</td>
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<td>SPLK</td>
<td>Splunk, Inc.</td>
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<td>CYBR</td>
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<td>FireEye, Inc.</td>
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<td>CHKP</td>
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<td>FTNT</td>
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<td>SYMC</td>
<td>Symantec Corporation</td>
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How we find areas ripe for innovation

- Identify
- Protect
- Detect
- Respond
- Recover

Devices
- Pre-Compromise

Applications
- Pre-Compromise

Network
- Post-Compromise

Data

People

Source: Sounil Yu

Technology

Process

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Herndon, VA 20170

www.mach37.com
Trend #1: The mid-market demands advanced capabilities

Source: Sounil Yu

Trend #1 – Mid-market companies cannot afford the status quo
Trend #1: The mid-market demands advanced capabilities

Source: Sounil Yu

Pre-Compromise

Post-Compromise

Embedded Expertise

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Trend #2 – Perimeter sensors don’t work as well as we need, and much of our computing happens outside of our networks anyway.
Trend #2: Perimeter solutions are obviated

Identify  | Protect  | Detect  | Respond  | Recover

Devices  | Applications  | Network  | Data  | People

Zero Trust Security Models

Source: Sounil Yu
Trend #3: New infrastructure creates opportunity

Trend #3 – IPv6, Cloud, SDN, and As-A-Service approaches create new security issues and advantages.
Trend #3: New infrastructure creates opportunity

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<td>People</td>
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Security of Next Generation Infrastructure

Source: Sounil Yu
Trend #4: Mobile and lightweight IOT presents challenges

Trend #4 – The ubiquity of mobile platforms and lightweight computing devices will exacerbate the current problem

Source: Sounil Yu
Trend #4: Mobile and lightweight IOT presents challenges

Security for Lightweight and Distributed Platforms

Source: Sounil Yu
This is not sharing economy stuff.¹

Security and Technical Domain Expertise
- Intelligence Community
- Academia
- Security Researchers

Business Skills
- Fundraising
- Sales
- Marketing

¹ Bob Ackerman – Allegis Capital, seasoned security investor
The dirty little secret is....

Shhhhhhh.....
Good Product Management Starts with Why

WHY your customers want your product may surprise you.

(Read Simon Sinek)
To understand WHY, you have to ask...

Then, stop talking and LISTEN.
Know your competition
Make your MVP easy to use

OUR PRODUCT COMES IN 27 MODELS WITH OVER 9,000 OPTIONS.

GIVEN MY LIMITED TIME TO STUDY THE OPTIONS, YOU HAVE GUARANTEED THAT I WILL MAKE A SUB-OPTIMAL CHOICE.

THANKS FOR MAKING ME A FAILURE.

WELL, IT’S NOT REALLY “SELLING” IF WE BOTH WIN.
Building a product is more than building a prototype

WE ADDED A NEW PERFORMANCE TEST, BUT LEARNED THAT THE TEST ITSELF IS FLAWED.

NOW OUR PRODUCT FAILS OUR OWN TESTS AND OUR CUSTOMERS ARE ASKING TO SEE THE TEST RESULTS.

DO I HAVE PERMISSION TO FAKE THE TEST DATA?

I DIDN'T EVEN KNOW DATA CAN BE REAL.

Dilbert.com DilbertCartoons@gmail.com

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<table>
<thead>
<tr>
<th>Time (years)</th>
<th>Valuation ($M)</th>
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- **Micro-Seed**
  - Concept Validation and Prototype Dev.
- **Seed**
  - Market Validation and Target Customer Traction
- **Series A**
  - Scalable Development & Delivery Infrastructure and Demonstration of Ability to Sell
- **Series B**
  - Scale Up the Enterprise to Drive Revenue Growth
- **Follow-on Series**
  - Reasons Vary

Develop a business plan that looks familiar.
Build a Financial Model

- Human Capital Plan and Budget
- Cust. Acquisn
- Revenue Growth
- Oper. Profit
- Cash Flow
- Invest. Reqmnts
Have a plan to build a team
Your human capital needs will evolve

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**Focus**
- Prod Dev

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  - **Focus** Prod Dev
  - QA/DevOps
  - Marketing/Sales (ltd)

- **Series B**
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<td>Series B</td>
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<td>Follow-on Series</td>
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  - Focus: Prod Dev

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  - Focus: Prod Dev

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  - Focus: Prod Dev
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  - Marketing/Sales (ltd)

- **Series B**
  - Scale Up the Enterprise to Drive Revenue Growth
  - Focus: Prod Dev
  - Marketing
  - Sales (ramp)

- **Follow-on Series**
  - Reasons Vary
Your human capital needs will evolve

- **Micro-Seed**
  - Concept Validation and Prototype Dev.
  - Focus on Prod Dev

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**Valuation ($M)**

- 0
- 5
- 10
- 15
- 20
- 25

**Time (years)**

- 0
- 1
- 2
- 3
- 4
- 5

**Focus Areas**

- Prod Dev
- QA/DevOps
- Marketing/Sales (ltd)
- Marketing
- Sales
- Acquisitions
Pricing and Customer Acquisition

**Delivery Model**
- On-Premise
- Software
- Appliance
- As-A-Service
- Hybrid

**Channel**
- Direct
- VAR
- OEM
- Online Marketplace

**Pricing Structure**
- Perpetual License
- Annual License
- Monthly Subscription
- Freemium
- Utility
- ARPU
The Purpose of the Model
Demonstrate that you know how to grow and finance a high-margin, high-growth business that will support venture investment.

- Forget everything you know about DCAA accounting, you are product companies
- Gross margins must exceed 80%
- Accept the fact that your projections will be wrong
- Your models will tell you when and how much capital you need

Never, never never run out of cash!
Understand financial statements for software

### Financial Statements

<table>
<thead>
<tr>
<th>Year Ended December 31,</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
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<tbody>
<tr>
<td><strong>Revenue:</strong></td>
<td></td>
<td></td>
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<tr>
<td>Product</td>
<td>$88,253</td>
<td>$52,265</td>
<td>$24,888</td>
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<tr>
<td>Subscription and services</td>
<td>73,299</td>
<td>31,051</td>
<td>8,770</td>
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<tr>
<td><strong>Total revenue</strong></td>
<td>161,552</td>
<td>83,316</td>
<td>33,658</td>
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<tr>
<td><strong>Cost of revenue:</strong></td>
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<tr>
<td>Product</td>
<td>28,912</td>
<td>14,467</td>
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<tr>
<td>Subscription and services</td>
<td>18,853</td>
<td>3,163</td>
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<tr>
<td><strong>Total cost of revenue</strong></td>
<td>47,765</td>
<td>17,630</td>
<td>7,280</td>
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<tr>
<td><strong>Total gross profit</strong></td>
<td>113,787</td>
<td>65,686</td>
<td>26,378</td>
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<tr>
<td><strong>Operating expenses:</strong></td>
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<td></td>
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<tr>
<td>Research and development</td>
<td>66,036</td>
<td>16,039</td>
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<tr>
<td>Sales and marketing</td>
<td>167,466</td>
<td>67,194</td>
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<tr>
<td><strong>General and administrative</strong></td>
<td>52,503</td>
<td>15,335</td>
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<tr>
<td><strong>Total operating expenses</strong></td>
<td>286,005</td>
<td>98,568</td>
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<tr>
<td>Operating loss</td>
<td>(172,218)</td>
<td>(33,250)</td>
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<tr>
<td>Interest income</td>
<td>68</td>
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<tr>
<td>Interest expense</td>
<td>(525)</td>
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<tr>
<td>Other expense, net</td>
<td>(7,257)</td>
<td>(2,572)</td>
<td>(806)</td>
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<tr>
<td><strong>Loss before income taxes</strong></td>
<td>(179,932)</td>
<td>(36,721)</td>
<td>(16,711)</td>
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<tr>
<td>Provision for (benefit from) income taxes</td>
<td>(59,297)</td>
<td>(965)</td>
<td>71</td>
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<tr>
<td><strong>Net loss attributable to common stockholders</strong></td>
<td>$(120,635)</td>
<td>$(35,756)</td>
<td>$(16,782)</td>
</tr>
</tbody>
</table>

- **R&D 40% of revenue**
- **Sales & Marketing 103% of revenue**
- **G&A 32% of revenue**
- **93% annual growth**
- **70% gross margin** (may explain their current focus on cost control)
The #1 job of the founder is to sell
Contact

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@richardgordon5
703-956-6013