

Cyber Crime - a Huge Profitable Theme

Thesis

Cyber Crime is estimated to have inflicted \$6 Trillion of damages in 2021, expected to grow to \$10.5 Trillion by 2025. If measured as a country, this criminal “enterprise” would represent the third-largest economy after the U.S. and China. [*]

Ransomware, made famous by the Colonial Pipeline’s recent shutdown and the CEO’s decision to authorize a \$5 Million payment to the cyber attackers, is a rapidly growing area with a new cybercrime occurring every 5 seconds.

In 2020, corporations spent \$167B for cyber security globally. The U.S. federal government allocates 2.5% of its defense budget on cyber security and President Biden recently issued an Executive Order to update the government's cyber security infrastructure.

As such, given these rather grim statistics, most would agree that the industry has significant runway and the companies with the best tools to combat this problem will prosper well into the future.

Increasing Vulnerabilities

Computer systems operate at multiple levels, all of which are continually changing, providing new gateways for criminals. Examples:

- The current trend of migrating data storage off premises to cloud sources offers new vulnerabilities
- Working from home by logging into workplace computers expands entry points for hackers and cyber criminals

As such, cyber security firms must keep pace with persistent attack-method changes to remain relevant and trusted, or they will lose customers in a hurry with one misstep.

Finding the Best

As is frequently the case, while many agree that the theme is massive with predictable demand, picking the eventual winner(s) is difficult.

To illustrate the pitfalls of targeting an investment theme from the “top down”, we ran targeted internet searches for the top cyber security applications for popular attack segments, such as Phishing, Spoofing, Malware, Denial-of-Service (DoS) attacks, SQL injection, Zero-Day exploit, DNS Tunneling, etc.

The results contained numerous rankings, surveys, and articles from purported experts and consultants, several of which were actually “pay-for-play” vendors.

Below compares rankings from the 5 outwardly appearing, credible sites providing their picks.

| SITE 1 | SITE 2 | SITE 3 | SITE 4 | SITE 5 |
|--------------|----------------|-------------|--------------|-------------|
| Sapphire | Nuance | ScienceSoft | Reciprocity | McAfee |
| IBM Security | JumpCloud | QAwerk | Rapid7 | Palo Alto |
| McAfee | SecureLink | Intruder | Syxsense | LexisNexis |
| CyberArk | Immersive Labs | Cipher CIS | Netwrix | CrowdStrike |
| Cisco | Polychain Labs | HackerOne | Fortinet | SecureWorks |
| AppGuard | Red Canary | Vipre | KnowBe4 | Infoblox |
| Avast | Cybereason | Check Point | CrowdStrike | Darktrace |
| Symantec | CrowdStrike | Cisco | Malwarebytes | Code42 |
| Avira | KnowBe4 | Palo Alto | Netsparker | Generali |
| Cybrary | Symantec | McAfee | Splunk | Sonatype |

Different Approaches

Not only are there multiple players, but also many use differing approaches in addressing the problem. At a macro level these approaches can be summarized as follows:

| | |
|------------------------|---|
| Observability | Allows for the continuous collection and monitoring of systems |
| Vulnerability Platform | Vulnerability scans, reporting vulnerabilities in an IT infrastructure |
| Identity Management | Allowing only authorized people to have access to technology for their jobs |
| Endpoint | A variety of applications protect organization's endpoints: servers and PCs, from malware infections, cyberattacks, and other threats |
| Zero-Trust Solutions | Only devices that pass both authentication and authorization are trusted |

As such, to search from the Top would now require a determination of which approach has the widest current and expected future acceptance, and who has the best technology for execution.

Our Process

In July of 2020, Ad-Star® identified Fortinet as a company demonstrating superior operating performance.

We were not looking for the best Cyber Security firm. Rather, we were looking for companies across the Globe with exceptional returns on capital and recurring cash flows, which led us to Fortinet.

A deeper dive revealed that:

- Fortinet is a top player in Cyber Security
- Holds 716 patents on products used in the field
- Named Google Cloud's 2020 Security Partner of the Year
- Recent Winner of Microsoft Security award
- Adding high performance next generation firewall, with Zero-Trust network access

After a thorough review it was added to our Growth Portfolio in July of 2020 and has appreciated by +113% since then. The company continues to deliver exceptional operational results and still offers significant upside in our view.

In summary, find companies with exceptional financial performance and they will more than likely be serving an important and growing theme.

Bradford Stanley, CFA

Bio

Recognized Top Performer Amongst Global Peer Portfolio Managers - PSN
BS Computer Science, Carnegie Mellon University
Creator of The Ad-Star System – SLG’s Backbone Investment System
CIO The Stanley-Laman Group, Ltd.

* Steve Morgan, Cybersecurity Ventures Cybercrime Magazine, 10-26-20

Disclosure: The preceding represents the opinions of The Stanley-Laman Group, Ltd., a Registered Investment Advisor, and is not intended to be an investment recommendation. All strategies outlined and the views expressed here offer risk of loss of principal and are not suitable for all investors. Investors are advised to consult with qualified investment professionals relative to their individual circumstances and objectives.