

February 21, 2020

Dear Clients and Colleagues:

In 2019, hackers accessed over 8.5 billion private consumer accounts online. Several companies, such as 7-Eleven, WhatsApp and Fortnite, reported security flaws that exposed millions of customer data. On average, a cyberattack costs a small business over \$50K, representing a substantial and potentially ruinous loss. For large corporations, financial fallout from online security breaches can run into the millions.

Phishing scams are one of the most common types of cyber attacks. In this scenario, consumers are sent fraudulent emails that appear to come from reliable sources, like a financial institution or government agency. Security scientists at Avanan analyzed 55.5 million emails and found that 1% of them were phishing attacks. Every employee encounters 4.8 phishing emails per week on average. Once an employee opens a phishing email or clicks on a malware link, the hacker can gain access to the victim's computer system in less than two minutes.

As one of the world's most popular ways to deliver information and stay in touch, email plays a crucial role in both personal and professional communications. Unfortunately, email is also one of the weakest links in cybersecurity. Email continues to be the number one threat vehicle for customers, and the number one choice for hackers trying to access critical IT systems and networks. Organizations and Chief Technology Officers (CTO) have become laser-focused on protecting emails, and managing the risk they pose to network security and private consumer data.

As the threat landscape continues to evolve, it is not just spam and malware links that firms need to guard against. Stakeholders must also protect themselves from internal phishing emails, and brand and domain spoofing by third-party vendors. Although cybersecurity training for employees can help reduce risks, only 11% of firms provide it. Given this reality, the need for strong, continuously evolving security frameworks cannot be overstated.

How have our holdings performed in this industry?

Since our inception in 2008, we have continuously maintained exposure to the cybersecurity software industry. Below are some of the latest exposures.

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Sophos (profiled in our July 12, 2019 weekly commentary)

- UK based focused on small and medium sized enterprises
- Provided exposure to cybersecurity software market
- Exited in Q4 2019, as the company was acquired by a United States based private equity firm

What is our current exposure?

We are currently invested in Mimecast, a cyber resilience company.

Mimecast (MIME US - \$49.24)

www.mimecast.com

Business overview

Mimecast is a cloud-based platform that offers email security solutions. They provide a series of services, including targeted threat protection, encryption, large file sending services, and data leak prevention.

Target market

The total addressable market for Mimecast products is over twenty billion USD. One of the major drivers of the industry is the shift of on-premise email servers to cloud-based services. At present, only 20% of emails are in the cloud, but this number is expected to grow. As Office 365 gains momentum, we are seeing greater demand for additional data security, which benefits companies such as Mimecast.

Competitive advantages

Given the sticky nature of the business, Mimecast enjoys very high retention rates. They also have the fastest search service-level agreement in the industry because their service architectures were designed for the cloud from the inception of the company.

Mimecast processes over 400 million emails every day, and has more than 300 billion emails under management. They are the only email security provider to guarantee 100% continuity on Office 365.

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Growth strategy

- Cross sell opportunities as their average customer owns around 3.2 products
- New product launches
- Increased penetration in the small and midsize business market

Management

Peter Bauer is one of the co-founders of the firm. Insiders own about 7% of the shares outstanding.

Risks

Microsoft can be viewed as the biggest competitor, and the Microsoft 365 product has been the driver for industry growth. Businesses realize the limitations of the Microsoft security platform, and prefer to have another cybersecurity provider like Mimecast. In fact, Mimecast cross sells the majority of their products to Microsoft 365 clients. The most significant risk to our thesis would be a data breach or a cyberattack on the Mimecast infrastructure.

What's next?

We have our eyes on a few interesting companies operating in the cybersecurity industry. Our ability to be highly selective and nimble in our portfolio holdings leaves us well-positioned to add some exposure to the online security industry at attractive valuations.

Have a great weekend.

The Global Alpha team

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