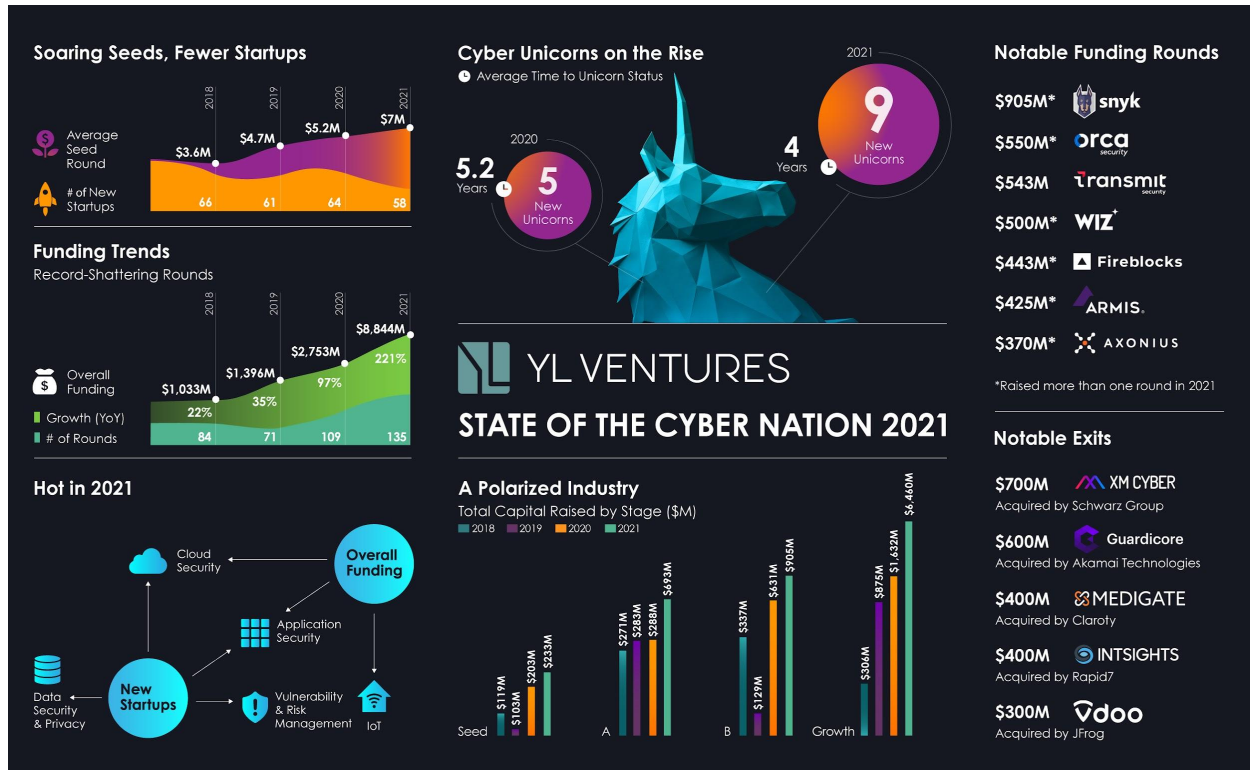# State of the Cyber Nation 2021:
# The Year of the Israeli Cyber Unicorns

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Over the past decade, the Israeli cybersecurity industry has secured its place in the global market as a formidable wellspring of technological innovation. No longer famous only for its high level of human technological capital born and bred in elite army intelligence units, the Israeli industry has matured into a veritable ecosystem of its own - on a global scale. With enough capital in this booming ecosystem to grow massive category leaders and cultivate internal Israeli M&As, Israeli startups are now major players in the global cybersecurity industry.
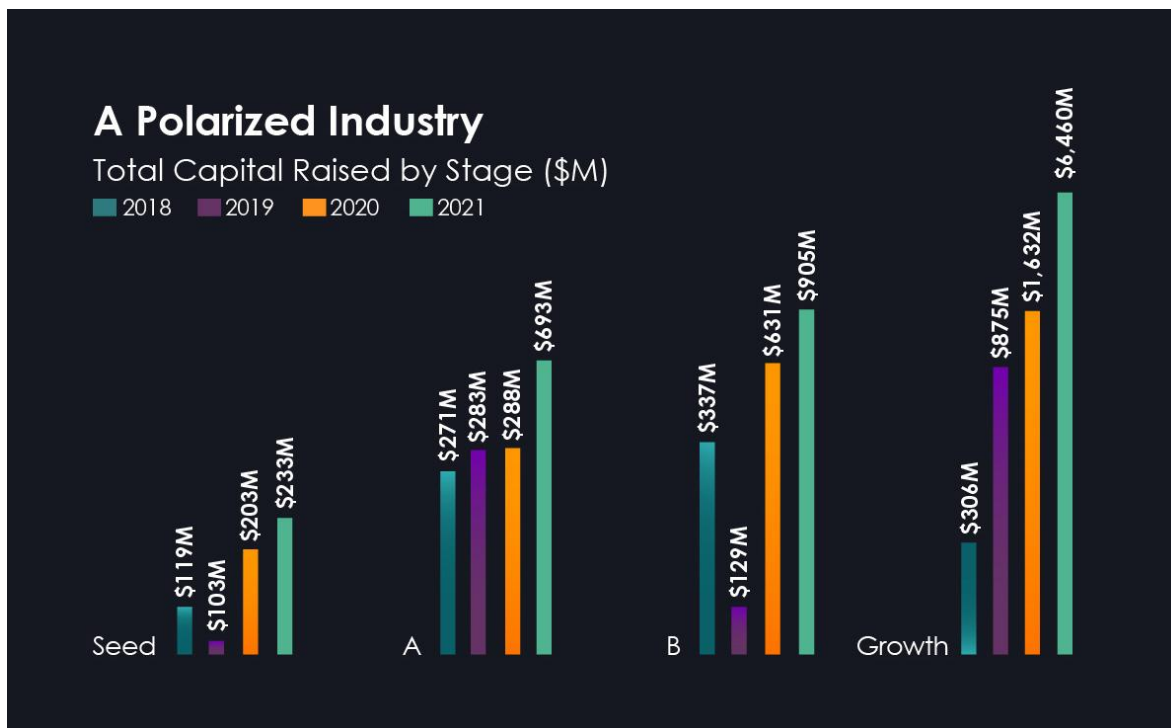
In last year's recap of the Israeli cybersecurity ecosystem, we anticipated that the record-breaking rounds of 2020 and marked-up valuations would continue to grow in 2021, but upon collecting and assessing this past year's data, we were taken aback by its magnitude. The overall funding of Israeli cybersecurity startups has increased in 2021 to a stunning record of $8.844B, more than tripling the amount invested in 2020 ($2.753B). This rise in capital was distributed across 135 funding rounds, an increase from 2020's 109 funding rounds, with 15

startups raising more than one funding round this year - setting an entirely new standard for both investors and founders and demanding the attention of all relevant stakeholders.

The cybersecurity market today has limited patience, and a 'go big or go home' mindset has permeated throughout the Israeli industry as founders focus on laying the groundwork for reaching a $1B valuation, building multi-billion-dollar companies, going public and more. The Israeli cybersecurity industry has become a polarized market accepting only two types of startups - potential unicorns and actual unicorns. With such early and constantly growing investments, the industry has taken on a new approach - survival of the fittest. It quickly becomes clear who will stay the course and catapult to growth and success, and who will look for the nearest exit, with no time to linger in limbo.

**Off to a running start**
In order to achieve this growth, founders are making their goals distinctly clear in investment board rooms and require larger funding for a strong head start and later on for entering the unicorn club at record speed. Fortunately, such sizable amounts of capital are available in today's market. The total amount raised in seed rounds this year increased from $203M in 2020 to $233M, while Series A rounds saw a significant surge, from $288M in 2020 to a whopping $693M in 2021 - a 140% increase. At the later end of the funding spectrum - growth rounds (Series C and above) have shown a nearly 300% increase, from $1.632B in 2020 to an astounding $6.46B this year.



A Polarized Industry
Total Capital Raised by Stage ($M)
2018  2019  2020  2021

Seed: $119M, $103M, $203M, $233M
A: $271M, $283M, $288M, $693M
B: $337M, $129M, $631M, $905M
Growth: $306M, $875M, $1,632M, $6,460M

"As entrepreneurs, this year has drastically changed the industry's rules," says Assaf Hefetz, Co-founder of Snyk, an Israeli cloud-native application security unicorn. "As threats abound and with a skyrocketing demand for innovative solutions, Israeli cybersecurity startups now have an invaluable opportunity to grow big and grow fast. The table stakes are higher, as Israel is churning out cutting edge, market-shattering solutions designed by entrepreneurs with deep technological expertise - and in such a competitive arena you have to stand out, or fold."

In another extraordinary shift in 2021, the average seed round has increased by 35%, growing from $5.2M to $7M in only one year. Investors' appetite has grown for betting early on strong, potential category leaders, and beating others to the punch. As capital rises, so does the bar for entry into the market. Only 58 new startups were founded in 2021, a decline from 2020's 64, and a testament to the current competitive and highly ambitious landscape. Another interesting trend we've seen over the past two years is approximately 25 startups that raised large seed and even Series A rounds and recruited dozens of employees, remaining in stealth mode without public knowledge of their existence or offering. As a form of strategy, some of these startups prefer to wait and merge their seed and Series A rounds in order to have a strong showing straight out of the gate.
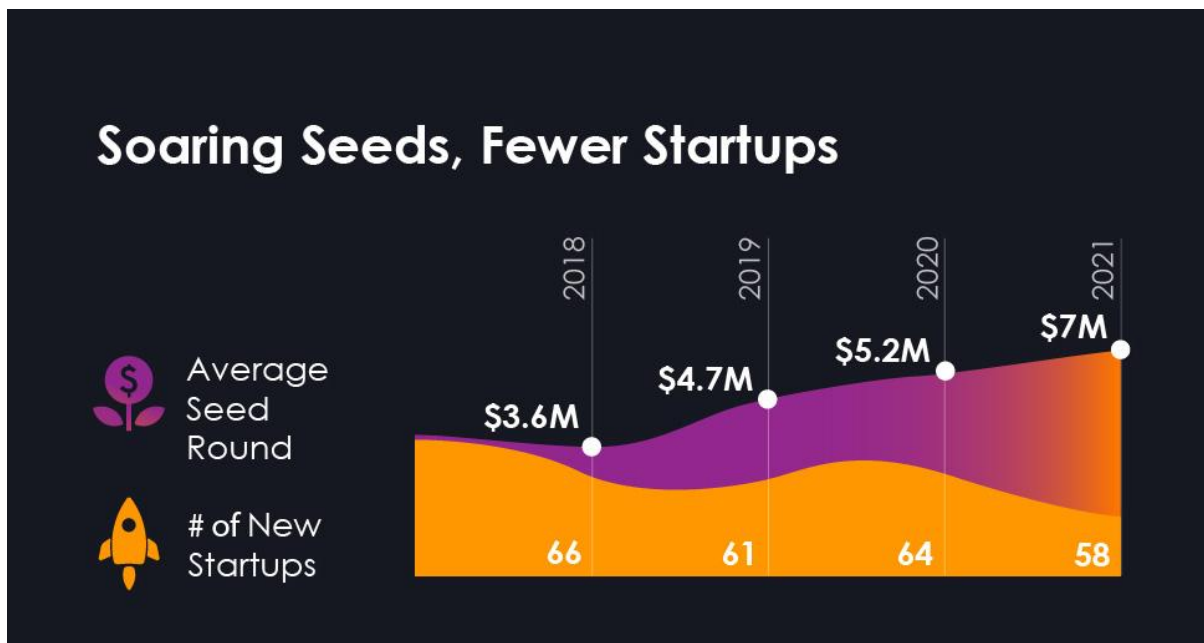
**Notable Israeli exits and unicorns**

With larger growth rounds and a rush to reach massive valuations, unicorns are crowned earlier each year. Nine Israeli cybersecurity startups achieved unicorn status in 2021, an 80% increase from 2020's five unicorns: Aqua Security, At-Bay, Axonius, Claroty, Fireblocks, Noname Security, Orca Security, Transmit Security, and Wiz. These mega-startups cut their time-to-unicorn by 23% this year, gaining their title in only 4 years as opposed to 5.2 years for 2020 unicorns.



"In terms of its hi-tech sector, Israel has gone from being dubbed the 'start-up nation' to an indisputable 'scale-up nation,'" says Yevgeny Dibrov, CEO and Co-founder of Armis Security, an Israeli unicorn and a leading player in Unified Asset Visibility and Security. "Valuations of Israeli startups are booming due to an exceptional combination of experienced entrepreneurs who reach business milestones faster than ever before and show unprecedented growth. This isn't a bubble - it's the real deal. These are top-tier professionals using deep technology to develop ambitious solutions that have a real impact on a global scale."

The current 'go big or go home' mindset brought about quicker, smaller exits this year, as startups took advantage of the opportunities inherent in joining forces to establish rapid market leadership. The average acquisition has remarkably declined this year, dropping by 50% from $401M in 2020 to only $201M in 2021. On average, startups that were acquired this year raised

27% less capital prior to their acquisition compared to last year - from an average of $37M in 2020 to $27M this year. This dichotomy is further exemplified in the exit of five startups this year before raising their Series A round, and two startups acquired only six months after founding and before raising even a single dollar in seed funding.

In 2022, we foresee the continuation and acceleration of a related phenomenon worth noting - established Israeli cybersecurity heavyweights acquiring and merging with other Israeli cybersecurity startups to become industry giants, as we observed in Claroty's acquisition of Medigate, Aqua's acquisition of Argon, Check Point's acquisition of Avanan and Chechmarx's acquisition of Dustico - all in 2021.  As the cybersecurity market becomes more saturated, such consolidation of local leaders brings the Israeli industry into the big leagues.

Another trend that began in 2020 and gained traction this year was the increase in non-cybersecurity companies entering the game and acquiring cybersecurity startups. There were 12 acquisitions this year conducted by non-cybersecurity companies as opposed to only eight in 2020. Security is no longer solely the concern of CISOs and security teams, and the industry's boom is attracting the attention of large companies that are not singularly focused on cybersecurity. Companies like Elastic and JFrog now aspire to expand their offering in the cybersecurity realm, secure in-house capabilities, and reinforce their human capital with strong technological teams.

Notable exits this year include XM Cyber (acquired by Schwarz Group - $700M), Guardicore (acquired by Akamai - $600M), IntSights (acquired by Rapid7 for $400M, in the company's second acquisition in Israel in 2021, after acquiring Alcide in January), Medigate (acquired by Claroty - $400M), and Vdoo (acquired by JFrog - $300M).

## 2021's hot spaces
The majority of this year's seed funding flowed to the 'hot spaces' of 2021 - application security, data security and privacy, and the consistently thriving - and not at all new - sectors of cloud security, SaaS security and vulnerability and risk management.
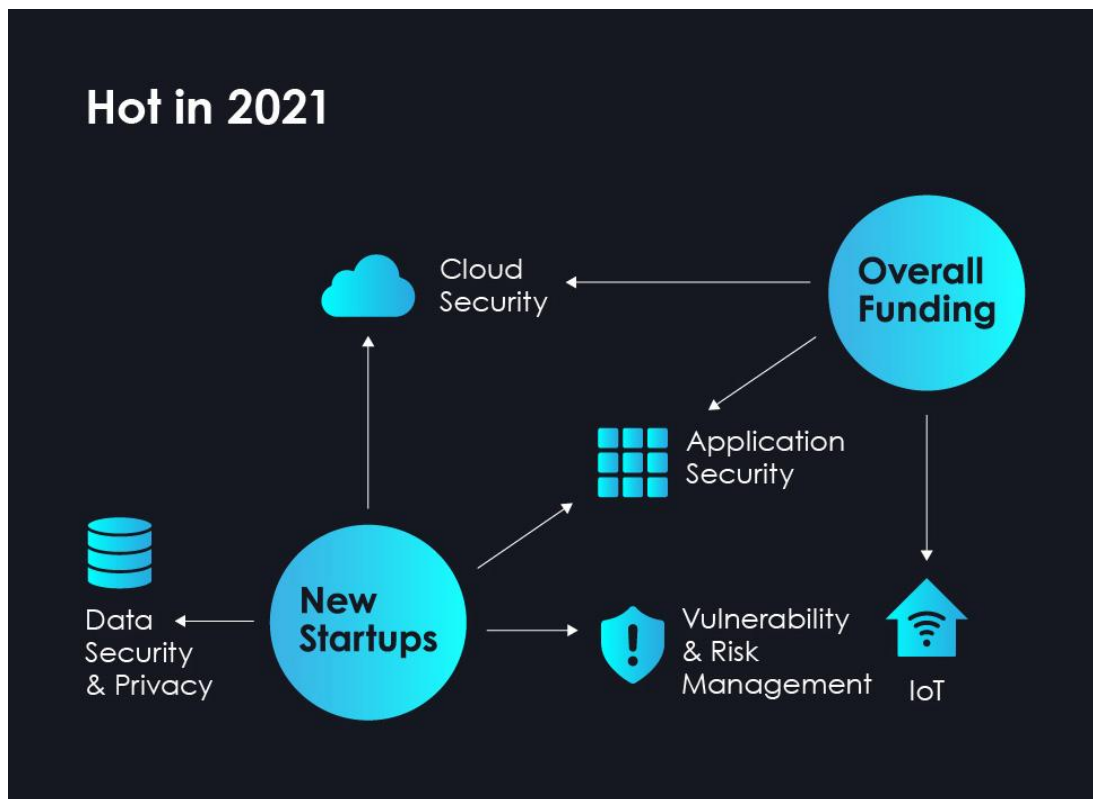
Application Security remains at the top of the charts this year once again and has garnered recent attention due to the Log4Shell vulnerability found in Log4j open source library, allowing unauthenticated remote code execution at the very heart of the application development pipeline. With such continuously growing sophistication, attacks in this space have made the security of the Software Development Life Cycle (SDLC) an organizational priority. With a growing number of applications developed and pushed to production in modern business, and as security teams are increasingly outnumbered by developers, Application Security Posture Management also became a growing trend within this sector. Startups such as Enso Security, founded in late 2020, develop platforms and solutions to increase AppSec teams' visibility and control. Examples of successful startups that raised significant rounds in the application security space this year include Cycode (Series A and B this year, totaling $76M in funding), Salt Security ($70M Series C this year, totaling $131M in funding), Noname Security (Series B and C this year, totaling $195M in funding, and reaching unicorn status) and Snyk, a startup that has become a major player in the Shift Left space with a growing valuation of over $8B and a recent Series F funding round of $530M. As security gets even more developer-centric, we anticipate the Application Security sector to continue to evolve and thrive in 2022.

Data Security and Privacy were top-of-mind for both users and decision-makers this year. 2021 saw privacy regulations such as GDPR gaining heightened attention, as cyberattacks aimed at stealing or abusing personal data continued to plague the global workforce (Microsoft in June 2021, TMobile data breach in August, and more). Several notable startups in this space reached benchmarks this year - Piiano launched and raised a $9M seed round in late 2021, Satori Cyber raised a $20M Series A round, Duality Technologies raised a $30M Series B round, and a number of intriguing startups were founded but remain in stealth mode and expected to launch in 2022. Next year should prove to be quite eventful in this space.

"With more data in the cloud, spreading across dispersed business workflows and locations, control becomes a critical issue for enterprises," says Liat Hayun, CEO and Co-founder of a stealth cybersecurity startup, and previously VP of Product Management at Palo Alto Networks. "Cyber attacks in this field will accelerate, targeting data as the number one asset and creating lucrative opportunities for attackers on one end, and entrepreneurs on the other. The stage is set for transformational technological approaches to identifying and securing data in the cloud - and this is only the beginning."

Cloud Security continues to dominate the industry. As organizations accelerated their migration to the cloud - a trend exacerbated by COVID-19 - cloud-based security solutions had to quickly adapt in order to secure critical organizational assets in a new and constantly growing environment. Cloud security market leaders such as Orca Security and Wiz are examples of brilliant innovators that transformed the cloud security domain, introducing a uniquely comprehensive solution that quickly gained a significant edge over incumbent solutions. Their meteoric increase in customers and ARR is further proof that strong teams with viable products can merit their skyrocketing valuations, and that Israeli entrepreneurs have become forces to be reckoned with on a global business scale, in more than just superb technology.

The continued investment in SaaS Security, as evidenced by 2021 funding rounds for rapidly growing startups like Adaptive Shield (Series A - $30M), Grip Security (seed and Series A rounds - totaling $25M), and Valence Security (seed round - $7M), is hardly surprising in light of the evolution in the modern business environment and the scale of SaaS adoption. Security teams struggling to find their footing in this expanding risk surface require innovative solutions to govern it.

**Final forecast**

The Israeli cybersecurity industry has gone through a massive maturation process. With large investments, even larger gains, and fewer startups in the field, there is ample opportunity for stellar technological innovation to break existing markets and set even more remarkable records. For strong startups, fast growth will be their only concern from day one, with shorter transition times between stages and benchmarks. As innovative solutions continue to resolve increasingly concerning problems and saturate the market, category leaders in hot spaces will need to work harder to define their 'secret sauce,' and security decision-makers will prefer a consolidation of security offerings instead of a bevy of new tools - swallowing up smaller startups that focus on point solutions.

Recent headlines tout the 2021 global cybersecurity boom as a vapid 'bubble' that will inevitably burst. This is hardly the case. While valuations may have been nearing the limit of reason this year, we don't foresee a collapse, but a natural adaptation of the market to the characteristics and threats of the new reality. There are real, concrete and concerning security needs throughout all types of organizations, as malicious actors grow more sophisticated. Organizations will continue investing increasingly larger amounts of capital in order to meet these needs and ensure the security of their assets, leading to more innovation and growing security budgets. This is a far cry from a purely money-based and unsubstantiated 'bubble.' As capital continues to sweep this increasingly innovative and high-paced market, we will surely see the impact of the trends and shifts described above reverberate through 2022.

*\* Cycode, Enso Security, Grip Security, Orca Security, Piiano, Satori and Valence Security are YL Ventures portfolio companies. YL Ventures was an investor in Axonius and Medigate since their seed rounds.*