

DataTribe's Cybersecurity Investment Strategy: Building Firms From Scratch

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Venture capitalist Bob Ackerman doesn't want to compete for funding deals. Instead, the founder of VC firm AllegisCyber is taking a new approach. He looks for gaps in the cybersecurity market and creates companies to fill them.

Mr. Ackerman co-founded a company two years ago called DataTribe, which looks for problems it believes aren't being solved in cybersecurity or data science. DataTribe builds its own startups from scratch, hiring engineers—often former NSA employees—and longtime cybersecurity executives to run them. AllegisCyber, which has \$500 million in total assets under management and focuses exclusively on cybersecurity, then gets to invest in the Series A round alongside other investors and DataTribe itself.

THE TAKEAWAY

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- [Hires ex-NSA staffers to create startups](#)
- [Successful bets include Onyara, sold to Hortonworks](#)

The team's first startup, Onyara, was founded with \$1.3 million in seed capital and sold for around \$43 million six months later to Hortonworks. Since then DataTribe has launched Dragos, which makes security for industrial systems and raised \$10 million in series A funding, and Enveil, an encryption technology firm that has raised \$4 million in seed funding. "We're reinventing venture capital," Mr. Ackerman said. "We're not investment managers. We build companies," he said.

It's an approach to building cybersecurity startups that is front and center this week at the annual RSA Conference in San Francisco, where more than 550 security startups jockey for attention from customers and venture capitalists. DataTribe-backed ReFirm Labs was a finalist in the conference's annual Innovation Sandbox competition. It is DataTribe's second startup to be a finalist in the prestigious competition, which has served as the launching pad

for some of the cybersecurity industry's most successful startups, including Sourcefire (acquired by Cisco for \$2.7 billion), Imperva (went public in 2011), and RedOwl Analytics (acquired by Forcepoint for an undisclosed amount).

Sniper Shot

DataTribe tries to launch around three to four companies a year in its startup studio. "Ours is more of a sniper shot [than a shotgun approach]," said Mike Janke, a longtime security startup entrepreneur who co-founded the firm with Mr. Ackerman.

The strategy has its downside: It heightens investment risks by focusing on a small set of very early-stage bets. Because the startups often focus on less developed areas of the market—what Mr. Janke calls "over-the-horizon technology"—they also require more time spent explaining the concept to potential customers.

The DataTribe approach also requires significantly more legwork than traditional venture capital investments. Mr. Janke said his staff of 12 spends an average of 12 hours a day working on DataTribe's current bets. It usually takes about 12 months to get the startups up and running.

To get startups off the ground, DataTribe has a team of advisors, with more than 30 top cybersecurity executives—including from Cisco, Sophos, FireEye, and more—who each have invested between \$200,000 and \$500,000 of their own money in exchange for equity in DataTribe. DataTribe also provides the startups with some of the basics to building a business, including office space, cloud technology, connections for executive leadership, legal, product management, marketing support, and more.

The impetus for starting DataTribe came from an experience Mr. Ackerman had a few years ago, when he saw an opportunity for technology to help businesses assess and monitor cybersecurity risk. He pulled in Fred Kneip, a former information-security hedge fund executive, to run the company and spent the next year working on the launch. Called CyberGRX, the startup has now raised two rounds of venture capital funding. But the heavy investment of time taught Mr. Ackerman a lesson.

"We knew enough about the domain and where the gaps in the market are, but we can't do these one at a time," he said. "It chews up too much energy."

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He teamed up with Mr. Janke, a former Seal Team 6 member with long experience in security startups, as well as other co-founders Steven Witt and Dave DeWalt. DataTribe is based in Washington, D.C., near the headquarters of the CIA and the National Security Agency. Many former NSA staff founded consulting firms and it's that community that DataTribe frequently taps for talent.

“There is phenomenal technology in government labs and in the intelligence community... We created a platform with all of the DNA to build a company that could identify the pools of deep expertise and understanding of companies and start building our own,” Mr. Ackerman said.

One example is Terry Dunlap, a former NSA staffer who founded a consulting firm that developed a security technology that he described at a technology pitch event. One of the leaders of DataTribe happened to be in the audience and approached him after his presentation. DataTribe persuaded him to carve off the technology from the consulting firm. That became the basis for ReFirm Labs.

Since joining DataTribe, Mr. Dunlap said ReFirm Labs has been able to use the company's space—sitting alongside other startups like Dragos and Enveil—and open doors at places like Cisco, AT&T, McAfee, and Intel, where “nobody would pick up the phone or return my email” before. DataTribe even helped Mr. Dunlap and team prep his presentation and create the PowerPoint for the RSA Innovation Sandbox competition this week, he said. The company now has eight employees, he said.

Companies usually get their own space after landing a Series A funding. Enveil CEO Ellison Anne Williams said DataTribe helped provide seed funding, office space, and other resources as it looked to take its encryption technology to the public market. Enveil now has 15 employees and Ms. Williams said it is looking to start raising another strategic round of funding at the end of the summer.

Mr. Janke said there are other groups now looking to imitate the DataTribe model. A group in Israel called Team8 (started in 2014) already follows a similar approach for Israeli startups, and he said he has spoken to multiple groups in the last six months looking to follow suit in fintech and enterprise software.

CORRECTION: DataTribe co-founder Mike Janke was a member of Seal Team 6 in the Navy before going into business. An earlier version of this article incorrectly said he worked for the CIA.