

# More Cyber Investors Placing Beltway Bets

Entrepreneurs tap into pool of ex-government engineers with the skills and drive to 'get the bad guy'



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By

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When Dave Merkel launched his startup Expel Inc. in the Washington metro area, he wanted to tap into the region's deep pool of talent made up of ex-government security-focused engineers.

“They’re driven by a sense of mission,” he said. “Getting the bad guy is the thing that drives them.”

Venture capitalists have increasingly spotted cyber-opportunities around Washington, where plenty of experienced engineers are leaving behind roles in government to start their own companies. And recent deal-making underscores the heightened profile of cybersecurity startups cropping up in and around the nation’s capital.

Earlier in April, Mr. Merkel’s Expel raised a \$20 million round led by Scale Venture Partners. Last year, Forcepoint acquired Baltimore-based startup RedOwl. And now some investors are betting that Maryland-based Tenable Network Security has plans to go public soon.

The influx of venture funding for Washington-area cybersecurity companies comes at a tense moment between Washington and the technology industry. Lawmakers scrutinizing the industry are strongly considering increasingly regulating it. At the same time, Beltway-focused investors and entrepreneurs say an unprecedented number of highly skilled engineers have bolted government jobs for lucrative opportunity in the private sector.

Ellison Anne Williams, a former NSA senior researcher who launched an encryption startup two years ago, said government engineers are tempted to leave their jobs because of bureaucracy and a multitude of other factors. However, she adds, “Pay trumps all of that.”

Today there is more demand than ever for products created by entrepreneurs who have experience inside government battling sophisticated, state-sponsored cyber foes, said DataTribe founder Mike Janke. Many high-profile breaches recently have been linked to such actors, raising the stakes for the private sector to fight back against these attackers.

Two-and-a-half years ago, Mr. Janke launched DataTribe to help commercialize technology developed in government agencies. He said that in just that time, he has seen investment and talent shifting to Washington from the Bay Area.

In recent months, venture capitalists based in San Francisco say they've been hopping on planes to spend time in Washington, Maryland and Northern Virginia. Mr. Janke said several have told him they're considering opening offices in the region.

"Before, they'd say you've got to move your company into the Valley or to Boston," Mr. Janke said. "Now venture is looking to put money where the talent is."

A total of 145 Washington-area cybersecurity startups raised venture capital in 2017, an increase of 15% over the previous year—and an increase of 53% since 2013, according to PitchBook Data Inc.

Launching companies around the Beltway is not without its challenges.

Silicon Valley is awash with experienced sales, marketing and other professionals who have worked at several startups. Washington doesn't have that depth of talent, Mr. Janke said.

DataTribe's solution has been to "import" those professionals. As the cost of living quickly rises in the Bay Area, the Washington area has become a more attractive region for professionals from Silicon Valley. Mr. Janke said in the last 12 months, he and his partners have convinced 51 professionals to move from Silicon Valley to Washington.

Though groups like DataTribe, other early-stage venture funds and NEA have a strong presence in the D.C. area, entrepreneurs often travel to New York and the Bay Area when raising larger rounds.

Mr. Janke believes these challenges will be alleviated over time if there are more successful exits in the region. For now, he said he and his partners believe the area is "underhyped." He said the valuations are much more reasonable, and companies' spending is more in check.

In Silicon Valley, a cybersecurity company that raises \$2 million will spend roughly \$750,000 on marketing, according to Mr. Janke. By comparison, he says, a company that

has raised the same amount in the Washington area will likely spend \$170,000 to \$200,000.

As some of Washington-area cybersecurity startups are acquired or go public, engineers will leave those businesses and launch their own startups like Expel's Mr. Merkel did. "It's kind of like a flower blooming," he said, "and the seeds go everywhere."

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